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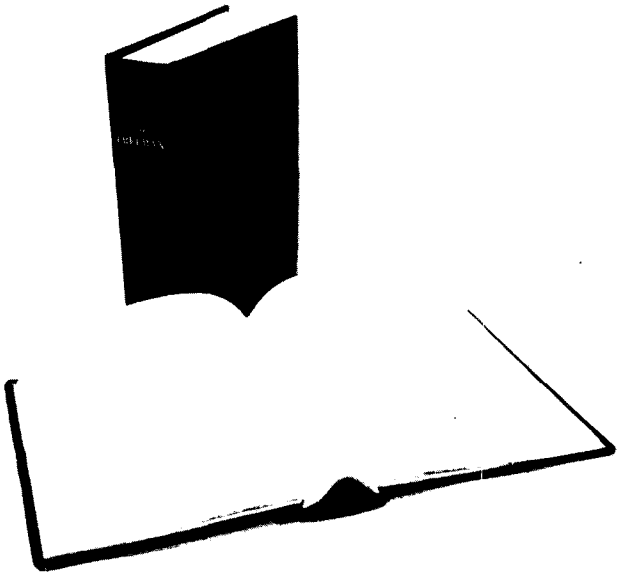

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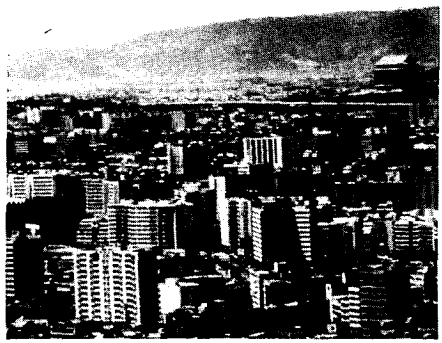
Shih Cheng Liu

ECONOMIC GROWTH IN TAIWAN:

Invisible Factors Contributing to Economic Development in the Republic of China



Kwang Hwa Film Syndicate

Taipei today, the capital of the Republic of China.

DURING the past 30 years, the outstanding achievements in economic development within the Republic of China (ROC) have been recognized all over the world by leading economists and businessmen.

Here in its base area of Taiwan, the ROC launched the first of a series of four-year plans in 1952. Since then, the obvious statistics are impressive: GNP has increased by 11.2 times, with an average annual growth rate of 6.7 percent. Per capita income increased by a factor of five. These are calculated in real terms.

In actual 1980 exchange rates, absolute income per head for that year amounted to US$2102.

As for foreign trade, its 1980 exports and imports totaled, respectively, US$19.8 billion and US$19.7 billion as compared with the 1952 figures of US$110 million and US$180 million.

By this bare outline, we gain a clear picture of the magnitude of economic growth in Taiwan.

What really counts, of course, is the actual livelihood of the people—and it is easily seen that they are pursuing the standard of living common to the industrialized nations.

Virtually no family is without a TV set, whether urban or rural. Most provide themselves with refrigerators. It is rare to see a person wearing patched clothing. Indeed, clothing is no longer merely a covering for the body, but is more often a fashionable symbol of prestige or social standing. Fans abound, and air-conditioning proliferates.

Traditional eating habits are still

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changing, but we can already see large increases in the consumption of milk, meat, and wheat as people desire more nutritious, higher protein diets.

Compared with only the very wealthy of 30 years ago, today even moderately successful businessmen and industrialists mostly own and drive relatively new cars.

Overall, this enhancement in the standard of living could not have been dreamed of 30 years ago.

This is especially so because of natural factors: Taiwan is an island of 36,000 square kilometers endowed with but a little coal, timber, and limestone. From this viewpoint, the potential for economic growth would seem poor. In other words, we may say that the main resources involve the population—currently something over 17 million. The conclusion, therefore, is that if Taiwan's recent achievements are a miracle, it is a human miracle.

This is why I want to explore the invisible factors.

Shih Cheng Liu is currently Chairman of the Board, Bank of Taiwan. Mr. Liu was formerly a Professor of Economics at National Taiwan University and is frequently an editorialist for several Chinese newspapers published in Taipei.

Mr. Liu first offered this message as a lecture delivered in Chinese in mid-1980. Friends insisted it be translated and shared with a wider audience.

"As an economist," explains Mr. Liu, "I believe that entrepreneurial factors which have proven successful in Taiwan are likely to be of similar value to other developing societies. Second, as a Chinese, I believe that these factors are psychologically compatible with human nature, regardless of race or culture."

It is time to explore in greater depth the "miracle" in Taiwan.

Attitudes and Conditions

A number of economists, especially from abroad, have tried to explain this miracle. But they most often take the easy path in analysis. They focus upon the most visible factors, such as the quantity and quality of capital, of natural resources; the structure and diversification of transportation and communications; the quantity and sources of power; the number of schools; the labor supply, and so on. All of these visible things are more easily counted, constituting a strong appeal to the economic experts.

It is, however, my thesis that the facts will show invisible factors to be more important to economic progress than are the visible factors.

The visible factors are those tangibles which are not so difficult to get or to build, provided the people devote their time to following the successful examples of the developed countries.

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But what I refer to as invisible factors are those attitudes and conditions that must grow within a society itself; they take time, depend upon the nation's culture and tradition, and cannot be produced in or imported from a foreign country. Hence, for an under-developed country, the provision of these invisible contributing factors to economic development is much more difficult than that of the visible factors.

Have we not seen undeveloped and under-developed countries, full of natural resources, struggling with little success to become industrialized? This is a good bit of evidence to support my view of the importance of the invisible over the visible factors of achievement.

Here, then, we come to factors, invisible cultural and psychological factors, which I believe have not been mentioned by economists in previous analyses of our economy.

Mounting Self-Respect

In the first place, we must consider the national self-consciousness that asserted itself after World War II within some previously colonized countries. Those societies felt that they had fallen too far behind the developed nations, in both industrial, civilized standards and in the practical standard of living. Hence, they strongly desired opportunities for self-improvement. This was not only a reaction to the colonial policies of the past; it was also an urgent pursuit of self-expression—and of self-respect—on their own.

In consequence, a driving force developed, as it were, a single will for a whole people. A great pressure was brought upon these governments to make development a preoccupation.

Just such a case is the Republic of Korea—and the ROC's Taiwan province, too.

In response to this request, and with the support of the vast majority of the people, the ROC government began the first of its consecutive economic plans. They have been brought into effect, one by one throughout 30 years, while the people—the most important resource—have been employed economically and to efficient effect in coordination with the policies and measures established by the government.

But what at first sounds like standard political economy is not the whole story. Cultural ethics are also importantly involved. In Taiwan, people have gradually changed their ideas about personal behavior.

Ethics and Economics

There is both co-existence and contradiction in traditional Chinese attitudes toward ethics and economic behavior. Perhaps this is natural in all primarily agricultural societies. It is very similar to the co-existence of internal and external

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ethics as pointed out by the noted German sociologist and economist, Max Weber. It is also something like the Jewish and Christian conflicts over usury, on the one hand, and rents, on the other.

Especially after 1952, gradually growing attitudinal changes became apparent among the people of Taiwan. In one aspect, ethics continued to be seen as rules of social behavior—but in the marketplace, it became more acceptable to view economic behavior as an aim to legally pursue maximum satisfaction or profit as a proper reward for the risks of entrepreneurship.

For our economic understanding, the most impressive changes are to be found in the new distinctions being made between obligations and personal rights; between charity and repayment of kindness.

Virtually all are now aware that pursuing the good life depends primarily upon one's own individual effort.

A relative or friend may desire to extend support; but if he does so, it is a kindness, not any longer an obligation. From this develops the further idea that it is better to be able to give than to be in a position of having to receive.

These changes induced better and wider understanding of the risk/reward relationship in entrepreneurial efforts.

In another important aspect, too, we can see a drastic change from traditional attitudes toward, or judgments upon, social values. The Chinese have for long attached special importance to intellectualism. More than 2,000 years ago, Mencius said, "Some labor with their minds, and some labor with their muscles. The former rule; the latter are ruled."

Naturally, then, manual labor—however necessary—was to be despised, and scholasticism—even when uttering pedantic nonsense—was more likely to be revered.

But the Industrial Revolution has taught all of its successful followers that such compartmentalization is wastefully inefficient. And so we see that economic development—modern industrialization—makes necessary changes in various criteria of social values.

Especially amongst the younger but also amongst the sharper of the older generation in Taiwan, we see strong consideration being given to the value of independently earning one's own way in profitable enterprise.

Erasing Prejudice

From these considerations there follows a marked decrease in prejudice as all honest and legal jobs are seen to be useful to the personal goal. The manual laborer, educated and trained to think, becomes semi-skilled and then skilled. The college engineer, getting his hands familiar

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This electronics factory in Taiwan marks a shift from labor-intensive products such as shoes and garments.

with the inner workings of machinery and circuits, tempers theory with practicality and becomes a more efficient designer. And as both groups come into more frequent contact, old prejudices further diminish.

All of these foregoing attitudinal changes in Taiwan have nicely conspired to bring forth extraordinary and unprecedented driving forces in both manual skills and in creativity. They are factors which are not easily quantified statistically and are, in that sense, invisible. But I would find it hard to overestimate the extent to which these valuable changes have exercised a favorable impact upon the economic development of the ROC on Taiwan.

Underlying all of this, there must be, of course, a proper infrastructure that includes a work ethic, education, law, and order.

In some under-developed societies, particularly in warm or tropical areas, there is an attitude toward work itself that can only be described as indolent. But the people of Taiwan, an island classified as sub-tropical, are influenced by an age-old Chinese ethic that is much more northerly. It strongly stresses "respectful attention" or a phrase that might be translated into "sincere, true, and faithful mentality," though it does not emphasize the Western "exactness" or "precision."

In America, the coined "workaholic" is popularly applied to managers and executives who work habitually more than 50 or so hours per week. But in Taiwan, especially since the onset of industrialization, the newly arising entrepreneurs, in conjunction with their employees, expend great effort by assuming respectful attention to their business; they watch everything carefully and dare not be negligent in their duties. Today, visiting foreigners are usually amazed at the number of managers and executives who work long after suppertime and throughout the weekend.

Better Educated and Trained

Still, all of the above would be in vain were the following generation to be no more advanced than the one before. Thus, 30 years of expanding and improving education have prepared myriads of sons and daughters not only to enter, but to improve

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our industries and services. On a competitive basis of high standards, application to undergraduate and graduate studies is publicly available. From these qualified young people, numerous men and women of high ability are equipped with the knowledge and skills required to run the businesses of design, production, and trading and shipping services. It must, then, be concluded that success in Taiwan's educational efforts is partly responsible for its achievements in economic development.

Of course, schools and graduates can be quantified and analyzed and are, in that sense, visible. But there is an invisible aspect that I want to stress. Before being awakened to a specific sense of economic development, most Chinese people were more or less satisfied with being "constant-income earners"; meaning that they tended to run some business in a routine way, peacefully, safely—avoiding risk where possible. But this could never have resulted in the tens of thousands of firms that now exist on Taiwan.

Taking Entrepreneurial Risk

For some, it began after schooling; for many, it began during school days: but as Taiwan's embryonic development began to unfold, thousands of youths acquired an attitude just the opposite of their father's attitude. Thousands and thousands of young people—and this does include women—began to seriously consider quitting jobs with incomes controlled by others in order to set up one-man or youthful-partnership companies. At best, of course, this is risky. But the young people have learned to do their best in forming optimum combinations of the factors of production. And, in taking these risks, they have also learned that the entrepreneur is the most important factor in national economic expansion. Recognizing the risk of failure, the potential satisfaction and profits of success are the basic, driving power that pushes the young person who sees the light of entrepreneurship.

So this is another thing that amazes the foreign visitor to the ROC on Taiwan: The very high percentage of one-man firms, of companies headed by a two- or three-man partnership, and so many of them not yet 30 years of age. They total a huge contribution to domestic production and services and, of course, to overseas marketing. The growing dollar value of their efforts is statistical and visible. What is not so visible to foreign economists is the tremendous energy that our youth bring to discovering new ways to get the job done.

I do not hesitate to say that positive attitudes, particularly amongst the young, toward entrepreneurial effort all over Taiwan are enormously beneficial to its economic achievements.

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Some would avoid the issue of race; but, even avoiding it publicly, many will privately filter any analysis through their own biases. Allow me to openly declare that I believe the Chinese are among the more intelligent races of mankind.

Historical evidence places 16th Century China at least on the same level with other nations, both in culture and in economy; it is one of the oldest of nations, and one of the few not colonized by the western world.

So far as I can see, the factor that caused China to fall behind the western world was the absence of an industrial revolution. Ah, yes; but, why this lack?

Barriers to Trade

Western societies and nation-states first arose around an inland sea that bordered upon the edges of three continents, permitting faster and somewhat less risky intercommunications between diverse peoples. For most of western history, there have ever been two, and sometimes several, cultural systems in contention—which means a more frequent, if not always constant, contest of ideas.

In contrast, the vast bulk of China was and is landlocked by formidable natural barriers on three sides, with an infinitely larger, and frequently angrier, ocean on the fourth.

Too, a thousand years before Athens contested with the cultures of Asia Minor and Egypt, China was unified, and under the twin conditions of unity and relative isolation, the Chinese form of feudalism and monarchism grew stronger and more ritualistic. These are the conditions that combined forces to restrain the kind of thought, action, and experimentation that might otherwise have permitted an almost wholly agricultural society to discover or learn the secrets of industrialization.

I submit, then, that race has nothing to do with the earlier failure of industrial development in China. For added proof, observe that from the very earliest emigrants, those Chinese, individuals or families, who moved outward to South-East Asia, taking little or no capital with them, came quickly to positions of economic prominence and sometimes to great wealth among the societies in which they worked, and this is now observable all over the world. Chinese people are as capable of entrepreneurial activity as are the Scots of Adam Smith. And to this fact we may attribute much of the success in the development of Taiwan's economy.

A Favorable Climate for Industrial Development

Finally, it is a basic premise that there must be a good climate for investment, many trading opportunities, and a high probability of profit-making. These, in turn, depend upon

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a "rule by law and not by men." Given this, one expects a stable political environment that safeguards private property and legal economic activities, paving the way for harmonious relations between labor and management. These will make it possible to produce and trade in compliance with planned, or at least reasonably anticipated, costs and sales. These also make possible the advancement of the laborer and the upward mobility of the young as they may risk striking out on their own.

In the past 30 years, the Republic of China has impressed the world with its long-term stability. There have been no social upheavals or crippling strikes, largely because both labor and management see greater benefits for all through cooperation and concession. Many foreign investors and traders have stated that such a favorable and stable climate can hardly be found elsewhere in the developing world. Thus, this favorable image is projected and perceived internationally, with a result that enhances domestic capital formation and both foreign investments and trade relations.

For these reasons, many more factors of production become available and move steadily into Taiwan, paying back their fair and reasonable returns through the market functions. No place is perfect; but a society that approaches economic activity with a sense of fair play brings forth an additional factor which hastens its economic development.

I began with the thesis that invisible factors have contributed greatly to the economic achievements of Taiwan.

The factors I have emphasized are not tangible. They are not well described by charts, diagrams, or statistics.

Yet they do indeed exist.

And I am certain that they are more important than the visible factors so much beloved by so many.

The biggest difficulty is: To begin!

Economic development in the Republic of China was embryonic for many years. Then, as entrepreneurial attitudes took shape under a rule of law, it began rolling like a snowball down a favorable path, constantly accumulating both substance and velocity.

And, this has been witnessed and well understood by the young.

Today, the young Chinese emerge —both men and women—stronger and better educated than their fathers.

They have no hesitation in taking full responsibility for moving forward, moving upward, moving at full speed.

Many of the results are statistically visible. But the entrepreneurial attitudes—the motivations and the inner achievements and satisfactions—these are the invisible factors of success in the ROC. ⊕

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Thomas W. Knepher

Choice and Responsibility

WHAT is it that makes man unique among the creatures of the earth? This question has been debated throughout history and has been answered in many ways, but the one attribute that has consistently been mentioned is man's ability to make choices. Man is the only creature that can willingly choose to act against his self-interests. Other creatures are driven by instinct; man alone chooses his path. This ability to choose includes the ability to choose what appears to be the wrong path.

A person's decisions can be guided by a variety of impulses—a long-term plan, a misunderstood set of circumstances, apathy, a clear vision of the future, or a momentary pleasure. His actions can be trivial or crucially important; they can be self-sacrificing or self-indulgent. In the long run, he may be better off, or he may end up with nothing at all. In each instance, however, it is the individual who is making the choice. And it is he who is ultimately responsible in a free society for the consequences of his choice. To be human is to be able to choose, even if we choose wrongly.

The classic economic marketplace is made up of choices. Should I buy this good or that? Should I spend or save? Should I put my savings in a bank or invest them in a new prod-

Mr. Knepher is an instructional systems designer and free-lance writer in San Diego.

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uct? These judgments are the essence of the marketplace. There is no guarantee that my decisions will be the correct ones, but without options, there can be no marketplace.

Unfortunately, much of our recent political history consists of state actions designed to limit our choices, usually "for our own good." Products have been banned, industries regulated, exports subsidized, imports restricted, the poor "assisted," the middle class taxed, and the income of the wealthy "redistributed," all in the name of a New Deal, a Great Society, "consumer protection," or the "rights" of some special interest group. The net effect in each instance has been to reduce the options available to the individual. If the trend continues as some wish it to, we will all eventually drive the same kind of car (made in this country), live in the same kind of house, and brush our teeth with the same kind of toothpaste. The marketplace will be controlled out of existence.

Although we usually associate the marketplace with goods and services, there is, in a free society, a marketplace for ideas. Here, through magazines, books, motion pictures, people on soap boxes, and so forth, a wide range of philosophies and ideas compete for our attention. As in the economic marketplace, some of these ideas are of high quality while others are extremely shoddy. There are choices to be made, and the choices here are as difficult as those in the economic marketplace. And, as in the economic marketplace, a group of "consumer advocates" has arisen to, once again, protect us from ourselves by limiting our alternatives. One group would protect us by banning saccharin, the other by banning books.

Both of these groups would have us believe that the choices they would deny us are really false ones. After all, they say, who in his right mind would want to buy an unsafe car or a pornographic book? But the fact remains that we as individuals no longer have the right to make that decision for ourselves. The choice has been made by someone else, and we are diminished by that fact.

Some argue that the good to society outweighs the loss to the individual when some of these choices are removed. However, even if it could be proven that a given regulatory action would objectively improve the lives of the members of society, a strong case can be made that the very act of regulation does more harm to society than any benefits could offset.

With each choice I make comes the responsibility for the consequences of that choice. If I must choose between two actions, or between action and non-action, I will, to the degree of impact of my choices, give the alternatives some thought (especially if there is no one else to lay

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the blame on if I mess up). However, if the choice is nonexistent, so will, in many cases, be the thought about the alternatives. If I have no say in the decision, I have no responsibility for the outcome.

In so many areas of our lives, decisions that once belonged to the individual are being taken over by the state. We no longer have to choose how or whether to provide for our old age—the state has assumed that responsibility (or so the politicians tell us). We no longer need to make informed decisions in the marketplace—others will do our thinking for us. We no longer need to decide what our children should or shouldn't watch on television. Others who feel they know more than we do will decide for us.

Sadly, it would seem that the more responsibility the state takes from us, the more we are willing to give it. As Ralph Waldo Emerson points out in his essay "Politics," "Want of liberty stupefies conscience." It has become entirely too simple in our society to say, "I have no control over that," or "That's not my responsibility—let someone else worry about it." We are no longer interested in making difficult choices and really don't want to know what is going on around us. But, as we let someone else worry about it, the crime rate rises and the streets become increasingly unsafe. Our consciences become stupefied, the visionaries and bureaucrats who would run things for us cannot cope, and those who would take advantage of the rest of us use as their defense, "It's not my fault. I'm not responsible for my actions." They may be right.

Where does the responsibility for the condition of a society lie? It lies with the members of that society. Deprived childhoods and Twinkies are not the culprits. We are. We have allowed the state to take away so many of our choices and do so much of our thinking for us that we have forgotten what true responsibility is about. There will always be special interests—those who feel that they know more about what is best for us than we do. As long as there is a state mechanism that will allow these interests to make our decisions for us, they will continue to do so. And as long as there are those who can avoid the responsibility for their actions, there will be crime.

What is the answer? It is simple in concept but difficult in execution. Return to a free society. Make each of us responsible for his own life once again. Remove the power of the state to make our decisions for us, and give us back the freedom to choose our own path as long as we harm no one else. And if we do harm another, make certain that justice is swift, fair, absolutely impartial, and completely certain. Make us think before we act. The world will be better for it. And so will we.

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William H. Peterson

MISES and KEYNES

MEMORIES clear, memories blurred. Springs remembered, winters forgotten.

Do I betray an onrush of years? For I look back, with special pleasure and reverence, at those verdant springs and golden summers when that giant of our age, Ludwig von Mises (1881–1973), walked and talked in our midst, when he shone in our lives and minds, when he gently schooled us on the meaning of praxeology and the pain of interventionism.

Today we remember Lu Mises, we honor his name, we celebrate his birth, we glory in his truth, we marvel at his lonely and courageous struggle against heavy odds. The question remains, however, will the world remember? And in that question, I have, if you will, a charge for you, his successors here on this earth. Let me defer that charge to the end of my remarks.

And let me borrow some lines from the 18th-century English poet, William Cowper, so as better to express my feelings at this moment:

> What peaceful hours I once enjoy'd!
> How sweet their mem'ry still!
> But they have left an aching void,
> The world can never fill.

Our world is a perilous place—as much, I believe, as any time in human history. Look about you. Record high interest rates. A crime rate that has more than tripled in the last two decades. Federal transfer payments at some $400 billion yearly. Eight

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This article is reprinted and extended from a paper delivered at the September 10 and 11, 1981, conference at Hillsdale College, Hillsdale, Michigan, commemorating the centenary of the birth of Ludwig von Mises.

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million unemployed. Abroad, the French vote in socialism . . . the Thatcher government in Britain contends with the IRA, rioting in the streets and three million unemployed . . . The Soviet Union menaces Poland . . . Soviet advisers and Cuban troops infect Angola and Ethiopia . . . Iran disintegrates.

Keynes pushed credit expansion or his more formalistic concept of the pump-priming multiplier that would furnish national income sufficient to yield full employment.

We Shape the Future

Still, there lives the spirit of Mises, this defender of human liberty and free enterprise, this leader of the Austrian School of economics, this foe of communism and interventionism. So the die is not cast. We are not, after all, prisoners of the future. The future is what we, all of us, each of us, make it. I am reminded of the opening lines of Charles Dickens' *Tale of Two Cities:*

> It was the best of times,
> It was the worst of times,
> It was the age of wisdom,
> It was the age of foolishness . . .
> It was the spring of hope,
> It was the winter of despair.

So I repeat my question: Will the world remember Mises and what he stood for? Or will it continue to embrace, more or less, the philosophy of that other, if misperceived, colossus in this century, that purveyor of inflationism and interventionism, John Maynard Keynes?

Let me couch these reflections, then, in the framework of the world that lies behind and before us, for my remarks involve both retrospect and prospect.

I speak of two revolutions: the Keynesian Revolution, which you all know about, with its handiwork of inflation and other political and economic trauma all about us; and the Misesian Revolution, which I hold is incipient but growing, which may yet win for us a new birth of freedom and free enterprise. Straws in the wind: Of late the American, Southern and Western Economic Associations hold—unprecedentedly—panels on Austrian economics at their annual meetings.

I remember Lu Mises in three courses I took under him at New York University's Graduate School of Business Administration in the early 1950s. The courses were "Socialism and the Profit System," "Government Control and the Profit System," and "Seminar in Economic Theory." (I attended the seminar many times after I was graduated.)

In each course he carefully established, in a Mengerian methodological sense, the primacy of the indi-

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vidual and the indispensability of freedom in the marketplace. His focus was ever on social cooperation springing from individual human action, in turn springing from subjective ends and limited means. He denied the concept implied in much of modern macro-economic theory, that of standardized, homogenized human beings, of human beings amounting to so many mindless interchangeable units. He concurred with Adam Smith's put-down of that universal omnipresent, omnipotent economic policy maker, who "wise in his own conceit," seems

> . . . to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board; he does not consider that the pieces upon the chess-board have no other principle of motion besides that which the hand impresses upon them; but that, in the great chess-board of human society, every single piece has a principle of motion of its own, altogether different from that which the legislator might choose to impress upon it.[1]

Thus Mises started with the praxeological premise that man is a being unique in the animal kingdom, a being who alone has a vision of the future, a being possessed of abstract reasoning power and a broad range of subjective values, a being whose ends and means, whose thought and action, are tightly integrated into cause and effect, a being whose human action is therefore always purposeful and rational if not always logical and effective, a being who therefore belies the simplistic notion of *homo oeconomicus,* of "economic man," of a being driven to make the greatest possible material or monetary profit. All this was subsumed under the title of his 900-page *magnum opus, Human Action,* first published in 1949.[2]

A Man of Influence

I remember Mises the man in his tastefully decorated apartment on West End Avenue. There Margit and Lu kindly had Mary and me to dinner and occasionally our children, Mark and Laura. There we enjoyed the company of people like the Fertigs, Hazlitts, Reads, Cortneys, Petros, Koethers and others. The parties were always sparkling affairs, ever graced with the enchanting beauty of Margit and the courtly charm of Lu.

I remember the Mises seminar, first in the Wall Street area and later on Washington Square. I remember some of the Mises seminarians like Henry Hazlitt, Lawrence Fertig, Israel Kirzner, Murray Rothbard, Ralph Raico, Robert Anderson, Hans Sennholz, Laurence Moss, George Reisman, George Koether, Sylvester Petro, Toshio Murata, Edward Facey, Leonard Liggio and Bettina and Percy Greaves.

I remember Mises at meetings of

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the Foundation for Economic Education in Irvington, New York, with such FEE people as Leonard Read, Ben Rogge, Charlie Curtiss, Paul Poirot, Frank Chodorov, Ed Opitz, Bob Anderson and George Roche.

I remember Mises at meetings of the Mont Pelerin Society with such stalwarts—some of them Mises' own students—as Friedrich Hayek, Fritz Machlup, Gottfried Haberler, Milton Friedman, John Van Sickle, Wilhelm Röpke, Bill Hutt, Phil Cortney, Albert Hahn, Jacques Rueff, Jim Buchanan, Frank Knight, George Stigler, Arthur Shenfield, Arthur Seldon, Ralph Harris, Gordon Tullock and John Davenport, among many others.

Again, I remember Mises the man and very much the individual. I remember his poise, his bearing, his European graciousness, his world view of things, his tremendous command of history and philosophy. I remember his kindliness and understanding to graduate students, even when they put inane questions to him. One such question in the 1960s followed his discussion of the inflationary implications of deficit finance. He was then asked why President Lyndon Johnson couldn't have both "guns and butter." But he can have both, replied Mises, adding with a twinkle in his eye, "if he is willing to pay for them."[3]

Yet I also remember as part of my intellectual development another name, another figure, a figure writ large by the media and intelligentsia, but one I never met, one whose thinking was of a genre wholly alien to Lu's—John Maynard Keynes (1883–1946). I remember the name of Keynes first cropping up during the Great Depression in an economics course at the William L. Dickinson High School in Jersey City in the late 1930s and more often in my undergraduate economics courses at New York University and graduate courses at Columbia University. The references were reverential. Keynes was a savior. He saved capitalism from itself—don't you see!

John Maynard Keynes

Keynes was a sometime prophet, too. In 1935, he sent a note to George Bernard Shaw saying, "I believe myself to be writing a book on economic theory which will largely revolutionize—not, I suppose, at once but in the course of the next ten years—the way the world thinks about economic problems."[4] This is one Keynesian prediction that was right on the mark.

Keynes the man is also of interest. Roy Harrod, his biographer, partly attributes Keynes' personal success to his lifelong "abounding and unfailing enthusiasm."[5] He made a fortune speculating in financial markets, a lot of it on behalf of his school, King's College at Cambridge University. He was a flamboyant

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kingpin in that snobbish, elitist, literary-intelligentsia group—the Bloomsbury Set. He married Lydia Lopokova, a prima ballerina of Diaghilev's Russian Ballet. He took pleasure in art, opera, drama and literary works. He enjoyed bridge. He delighted in taking issue with professional economists and prime ministers, needling them left and right. In 1942 he was raised to the English peerage by King George VI.

What a name to conjure with, this Keynes, this global architect, this messiah who, like Julius Caesar, did bestride the world and shook it to its very foundation and shakes it still with his legacy of tremendous inflation and political trauma. Witness the plight of Western Europe today. Of America. Of Western Civilization itself.

Keynes, you recall, from his *General Theory of Employment, Interest and Money,* published in 1936, had the answer to the Great Depression. The answer was, in a phrase, demand-management, which really amounted to — eureka! — demand-creation, i.e., income-creation.

Macro-Economics

Keynes dwelt on macro-demand, on the aggregate national demand for goods and services that determines, supposedly, the level of national employment and, conversely, unemployment. He further supposed that central governments could henceforward fine-tune demand to the level of "full employment" through the magic dial of a "contra-cyclical budget." That is, central governments were to run surpluses in good times and deficits in bad times. In short, government was to become the great equalizer, the balancing wheel when demand was deficient, the knight in shining armor who would neatly banish joblessness forever.

Keynes and government had to come to the rescue of unplanned capitalism, for—he reasoned—are not the act of saving and the act of investment two entirely different and dangerously unrelated activities, with oversaving, underinvestment and consequent mass unemployment likely developments?[6]

But of course. So to kill off oversaving, heavy death duties and progressive income taxes were just the thing for wealthy countries like England and America. Keynes wrote that economic growth, "far from being dependent on the abstinence of the rich, as is commonly supposed, is more likely to be impeded by it."[7] Consumer and capital demand would also have to be controlled by the wise men in Whitehall or Washington: "The State will have to exercise a guiding influence on the propensity to consume" and achieve "a somewhat comprehensive socialization of investment."[8]

To bring off his call for govern-

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mental demand-management, for his reconstitution of the nature of income, Keynes sought to destroy Say's Law, the idea behind today's supply-side economics, the idea that supply creates its own demand, the idea that goods and services are ultimately paid for by other goods and services, the idea that consumption is strictly a function of production, the idea that a *general* overproduction of all commodities is simply impossible.

> There lives the spirit of Mises, this defender of human liberty and free enterprise, this leader of the Austrian School of economics, this foe of communism and interventionism.

Pump-Priming

How, then, would any deficiency in "full employment" income be met? No, not through sweaty production, nor through grubby capital formation, nor through that outworn principle, Say's Law. Instead, Keynes pushed credit expansion or his more formalistic concept of the pump-priming multiplier that would furnish national income sufficient to yield full employment. So let the printing presses roll. In his puckish way, perhaps reflecting his admiration for his friend and wit, George Bernard Shaw, Keynes wrote:

> If the Treasury were to fill old bottles with banknotes, bury them at suitable depths in disused coal mines which are then filled up to the surface with town rubbish, and leave it to private enterprise on well tried principles of laissez-faire to dig the notes up again . . . there need be no more unemployment and, with the help of the repercussions, the real income of the community, and its capital wealth also, would probably become a good deal greater than it actually is.[9]

Wonderment emerges from this reading of Keynes: Is income, at least initially, only pieces of fancy colored paper, green in this country, orange in Britain? Can government print wealth? Why not?

Yet more wonderment: Is capitalist efficiency really the road to survival? Why not make-work? Public works? Lofty public monuments? Listen to Keynes again in his waggish tongue:

> Ancient Egypt was doubly fortunate, and doubtless owed to this its fabled wealth, in that it possessed *two* activities, namely, pyramid-building as well as the search for precious metals, the fruits of which, since they could not serve the needs of many by being consumed, did not stale with abundance. The Middle Ages built cathedrals and sang dirges. Two pyramids, two masses for the dead, are twice as good as one; but not so two railways from London to York.[10]

Obviously in such a scheme of things there is not much room for a typical efficiency-minded, profit-seeking capitalist. Clearly this par-

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asite would have to be shipped off to Siberia or at least put out to pasture. Thus Keynes proceeded to call for "the euthanasia of the rentier" and consequently for "the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital."[11] Keynes went on in this let's-expropriate-the-expropriators vein to declare, brazenly if not logically: "Interest today rewards no genuine sacrifice . . . [for] there are no intrinsic reasons for the scarcity of capital."[12]

With such notions at large, I think there's no question that Keynes greatly helped launch this age of economic planning and the Welfare State. Interestingly, he even looked on the rise of totalitarian states as countries lending themselves more readily to the application of his principles. According to his foreword to the German edition of the *General Theory,* he wrote on September 7, 1936:

> The theory of aggregate production, which is the point of the following book . . . can be much easier adapted to the conditions of a totalitarian state [*eines totalen Staates*] than the theory of production and distribution of a given production put forth under conditions of free competition and a large degree of laissez-faire. This is one of the reasons that justifies the fact that I call my theory a *general* theory.[13]

As you know, the *General Theory* was a roaring success around the world. Somehow, though, theory and experience didn't jibe. In the ensuing 45 years of the Keynesian Revolution, world-wide central government deficits—and inflation—proliferated as never before. As I previously observed, political torment or painful economic trade-offs have become commonplace the world over, today as much as ever, or more so. This is the legacy of Keynes.

Yet, as I noted earlier, there is a ray of hope and the highest intelligence in the thinking of the man whose 100th birthday we celebrate today. As Keynes stood to the left, so Mises stood to the right—and *for* the right. While Keynes would arm the government with extraordinary peacetime powers—oblivious to the Actonian principle that power corrupts—Mises called for limited, non-interventionistic government. Mises wrote: "In stark reality, peaceful social cooperation is impossible if no provision is made for violent prevention and suppression of antisocial action on the part of refractory individuals and groups of individuals."[14]

The Role of Government

Mises took exception to the oft-repeated phrase that government is an evil, although a necessary and indispensable evil. In *The Ultimate Foundation of Economic Science,* he reminded us: "Government as such is not only not an evil but the most

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necessary and beneficial institution, as without it no lasting social cooperation and no civilization could be developed and preserved."[15]

Even so, in the face of modern tendencies toward greater empowerment and even deification of government and state, Mises noted: "It is good to remind ourselves that the old Romans were more realistic in symbolizing the state by a bundle of rods with an ax in the middle than are our contemporaries in ascribing to the State all the attributes of God."[16]

In like manner, Mises opposed Keynes' attempted overthrow of Say's Law, pointing out that with regard to ever-scarce economic goods there can be only *relative* overproduction. Surpluses and shortages are short-lived, savings and investment converge—thanks to the sensitivity of the price mechanism, including interest rates. Commodities are ultimately paid for, not by money, but by other commodities—by, in other words, work, production, the creation of wealth. Money is, yes, a commonly used medium of exchange; it plays—or ought to play—only an intermediary if vital role; but it is not a tool or plaything of governments.

Mises accordingly excoriated the Keynesian mentality denying Say's Law so that nearly all "governments are now committed to reckless spending, and finance their deficits by issuing additional quantities of unredeemable paper money and by boundless credit expansion."[17] He derided "the new prophet of inflationism" that people saw in Keynes.[18] He thought little of the Keynesian "miracle" of turning "a stone into bread," as Keynes himself described credit expansion on April 8, 1943 in his *Paper of the British Experts*.[19]

Courage and Integrity

The courage and integrity of Mises can be seen in an incident during a meeting of the Mont Pelerin Society in Seelisberg, Switzerland in 1953. Mises expressed concern that some of the MPS members themselves were becoming inadvertently infected by the virus of interventionism—state ownership of transport, social insurance, minimum wages, contracyclical fiscal policy, etc.

"But what would you do," a member asked him, "if you were in the position of our French colleague, Jacques Rueff," who was present at the meeting and at the time responsible for the fiscal administration of Monaco. "Suppose there were widespread unemployment and hence famine and revolutionary discontent in the principality. Would you advise the government to limit its activities to police action for the maintenance of order and the protection of private property?"

Mises stood fast. He replied: "If the policies of nonintervention prevailed—free trade, freely fluctuat-

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ing wage rates, no form of social insurance, etc.—there would be no acute unemployment. Private charity would suffice to prevent the absolute destitution of the very restricted hard core of unemployables."[20]

Again, Mises had no taste for the Keynesian notion of a "contracyclical budget" so as to maintain "effective demand" and hence "full employment." He regarded the "G" in the Post-Keynesian "full employment" formula of Y = C + I + G (National Income = Consumption Spending + Investment Spending + Government Spending) as about the most unstable, inflationary, politics-ridden, and unscientific balancing wheel that the economic managers could employ. For one thing, the formula ignored the political propensity to spend and spend, good times or bad. Moreover, it assumed the "pretense of knowledge," the statistical or mathematical measurability of the unmeasurable, for how much consumers and businessmen will spend in year X is not given to the mind of man. Most grievously, it ignored myriad market-sensitive cost-price relationships, especially the proclivity of trade unions and minimum wage laws to price labor out of markets—i.e., into unemployment.

Thus Mises held that Keynesian theory in practice leads, through fits of fiscal and monetary expansion, to inflation, controls, and ultimately stagnation. Further, "G" so used, generally meant the secular swelling of the public sector and shrinking of the private sector—a trend that spelled trouble for human liberty.

The Theory of Money

In a way, Mises anticipated and rebutted the 1936 Keynesian "general theory" a quarter-century ahead of Keynes: In his 1912 work, *The Theory of Money and Credit,* Mises contended that forced-draft credit expansion, not so-called "mature capitalism," carried the seeds of boom and bust.[21] Here Mises praxeologically tied individual subjective values to price determination and to the quantity theory of money (but in ways much less mechanistic than in other schools of thought).[22] In other words, he integrated the supply of and demand for money to marginal utility theory. And he saw that government, Keynes to the contrary, has no magical money save what it taxes or borrows from the people. As he said in *Human Action:*

> At the bottom of the interventionist argument there is always the idea that the government or the state is an entity outside and above the social process of production, that it owns something which is not derived from taxing its subjects, and that it can spend this mythical something for definite purposes. This is the Santa Claus fable raised by Lord Keynes to the dignity of an economic doctrine and

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Long before Ralph Nader made consumerism a household name for Big Business supposedly bossing and doing in the consumer, Mises propounded the doctrine of consumer sovereignty.

enthusiastically endorsed by all those who expect personal advantage from government spending.[23]

Of course Mises covered the world of human action, saying much outside of critiques of Keynesian doctrine. For example, long before Ralph Nader made consumerism a household name for Big Business supposedly bossing and doing in the consumer, Mises propounded the doctrine of consumer sovereignty, declaring:

The direction of all economic affairs is in the market society a task of the entrepreneurs. Theirs is the control of production. They are at the helm and steer the ship. A superficial observer would believe that they are supreme. But they are not. They are bound to obey unconditionally the captain's orders. The captain is the consumer. Neither the entrepreneurs nor the farmers nor the capitalists determine what has to be produced. The consumers do that. If a businessman does not strictly obey the orders of the public as they are conveyed to him by the structure of market prices, he suffers losses, he goes bankrupt, and is thus removed from his eminent position at the helm. Other men who did better in satisfying the demand of the consumers replace him.[24]

Again, Mises held that censorship and drug control flow from the same interventionistic mentality. From *Human Action:*

Opium and morphine are certainly dangerous, habit-forming drugs. But once the principle is admitted that it is the duty of government to protect the individual against his own foolishness, no serious objections can be advanced against further encroachments. A good case could be made out in favor of the prohibition of alcohol and nicotine. And why limit the government's benevolent providence to the protection of the individual's body only? Is not the harm a man can inflict on his mind and soul even more disastrous than any bodily evils? Why not prevent him from reading bad books and seeing bad plays, from looking at bad paintings and statues and from hearing bad music? The mischief done by bad ideologies, surely, is much more pernicious, both for the individual and for the whole society, than that done by narcotic drugs.[25]

To be sure, many contemporary economists felt Mises was entirely too impolitic, too adamant, too pure, too uncompromising with the real world on its terms and values. He lived in an ivory tower, they said, and was simply not attuned to the way the world works. In contrast, Keynes was seen as not only the Great Redeemer but as a hard-

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headed realist, the pragmatist who knew how to translate politics and economics into practical action.

Unheralded and Unsung

The world did not take kindly to Ludwig von Mises, at least not while he was alive. Hayek reminds us that Mises never held an important chair of economics while he remained in his native Austria. A full professorship at the University of Vienna was always denied to him.[26] As so it was in America that the greatest academic distinction that Mises could obtain was to have been a "visiting professor" at New York University. In fact, Mises "visited" that university for 24 years—just under a quarter of a century—with his salary never originating from the university but from foundations and friends. Worse, his prolific writings and substantial contributions to the history of thought were, for the most part, ignored by the economics profession.

Yet here was a man who made momentous discoveries in the field of economics. These included his pulling together monetary theory and marginal utility theory, his logical proof that without market-determined "economic calculation" socialism was doomed to failure, and his insight that economics is a subset, albeit a very large subset, of the broader field of praxeology, the science of human action. Momentous contributions these, yet little recognition or stony silence from his professional peers or the world at large. As Henry Hazlitt comments:

> Any one of these contributions, taken singly, would have entitled him to a high place in the history of economic thought; taken together, they made him the foremost economist of his generation.[27]

To be sure, in 1969, thanks in large measure to Fritz Machlup, the American Economic Association named Mises a "distinguished fellow." In 1963 New York University awarded him an honorary doctorate of law, thanks in large measure to Lawrence Fertig, then a trustee of the university. And earlier Oskar Lange, then of the University of California and later chief economic planner in Poland's Politburo, even proposed a statue of Mises for having directed socialist attention to the problem of economic calculation—a still very much unsolved problem in socialism, by the way. So here and there fame flickered for Mises.

Keynes, on the other hand, was lionized the world over and even elevated to the nobility—*Lord* Keynes. Doctoral dissertations and textbooks galore, literally in dozens of languages, echo his theories. In this country, Nobel Laureate Paul A. Samuelson's thoroughly Keynesianized *Economics,* first published in 1948, translated into many languages, and now in its 11th American edition, is still going strong.[28] Samuelson has molded the thinking

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of generations of Americans and non-Americans, many of them now in positions of influence and power.

Looking Ahead

But what of the future? Let's take a leaf from Edward Bellamy's *Looking Backward: 1887–2000*. Let's suppose all of us here today achieve the turn of this millennium, that we reach New Year's Day in the year 2000, that we then look backwards. Will we, at that point in time, be able to say that the world perceived *two* giants on the stage during the 20th century—one, if you will, to the right, the other to the left, one a genuine giant, a genius of the rank of Aristotle, Shakespeare, Newton and Adam Smith, the other a pseudo giant, a messianic inflationist?

One giant speaks of the dignity of the individual, the ethic of work, the concept of personal responsibility, the sanctity of contract, the sovereignty of the consumer, the limitation of the state, the necessity of a gold standard, the cooperation of society through individualism, the idea of world peace through world trade, the efficacy and democracy of the market, the bond between freedom and free enterprise—the fact that they are inseparable, that one without the other is impossible.

The other giant—the pseudo giant—speaks of the thrift of the rich as aggravating the distress of the poor, the antisocial nature of the hoarding of money, gold as a "barbarous relic," the stock market as a gambling casino, the job of government to control and direct investment, the duty of the state to reduce the inequality of income and wealth, the source of real value as labor content, the idea that public debt is of no consequence since "we owe it to ourselves."

Which of these two men will history accord the recognition of hero of this age?

That is why I have reserved my charge to you until now. Whether the remaining fifth of this century is to continue to be the age of Keynes or the beginning of the age of Mises remains to be seen, but economic education—as Leonard Read will tell you—is not a passive thing. It takes effort—very active effort. Capitalism does not destroy itself, Mises reminded us. Instead people attempt again and again to undermine or overturn it "because they expect greater benefits from socialism or interventionism."[29] Those attempts must be opposed. Yet opposition has been relatively feeble throughout this tumultuous century, especially on the part of the intelligentsia, who by and large have exhibited what Mises called an "anti-capitalist mentality."[30] As Mises himself wrote in a somber mood in 1940:

> Occasionally I entertained the hope that my writings would bear practical fruit and show the way for policy. Constantly

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I have been looking for evidence of a change in ideology. But I have never allowed myself to be deceived. I have come to realize that my theories explain the degeneration of a great civilization; they do not prevent it. I set out to be a reformer, but only became the historian of decline.[31]

Hence my charge: I hold it as the duty of each and every one of you to read, to think, to speak, to write, to realize that we are the descendants of, in Hayek's words, "a great radical,"[32] of a genius whose vision, whose light, whose torch should—indeed must—be passed on.

It is up to us, the living, not only to glory in the potential of man and reason but to stand up and speak out—as Lu Mises stood up and spoke out—for freedom and free enterprise, for the preservation of Western Civilization itself.

—FOOTNOTES—

[1]As quoted by E. G. West, *Adam Smith* (Indianapolis: Liberty Press, 1976), pp. 118–119, from Adam Smith's *The Theory of Moral Sentiments* (1759).

[2]Available in a third revised edition from Contemporary Books, Inc., 180 North Michigan Avenue, Chicago, Ill. 60601.

[3]Personal recollection.

[4]Quoted from Roy Harrod in his *The Life of John Maynard Keynes* (New York: Harcourt, Brace, 1951), p. 462.

[5]*Ibid.*, p. 648.

[6]*Cf.* John Maynard Keynes, *The General Theory of Employment, Interest and Money* (London: Macmillan, 1954), pp. 64–65 and 84–85.

[7]*Ibid.*, p. 373.

[8]*Ibid.*, p. 378.

[9]*Ibid.*, p. 129.

[10]*Ibid.*, p. 131.

[11]*Ibid.*, p. 376.

[12]*Idem.*

[13]From a translation by Robert H. Beebe and Mabel E. Narjes of the foreword to the German edition (Duncker & Humblot, Berlin and Munich, 1955).

[14]*Op. cit.*, p. 719.

[15](Princeton, N.J.: Van Nostrand, 1962), p. 98.

[16]*Op. cit., idem.*

[17]From the Mises contribution, "Lord Keynes and Say's Law" in Henry Hazlitt, ed., *The Critics of Keynesian Economics* (Princeton, N.J.: Van Nostrand, 1960), p. 318.

[18]*Ibid.*, p. 306.

[19]Quoted by Mises, *idem.*

[20]Paraphrased from the William E. Rappard contribution "On Reading von Mises," in Mary Sennholz, ed., *On Freedom and Free Enterprise* (Princeton, N.J.: Van Nostrand, 1956), pp. 18–19.

[21]*Cf.* Mises, *The Theory of Money and Credit* (New Haven: Yale University Press, 1953), pp. 14–15.

[22]*Cf.* Lionel Robbins in his 1934 introduction to the English ed., *ibid.*, p. 13.

[23]*Op. cit.*, p. 744.

[24]*Ibid.*, pp. 269–70.

[25]*Ibid.*, pp. 733–34.

[26]See the Hayek contribution to *Tribute to Mises*, published by the Mont Pelerin Society at its Brussels general session, 1974, p. 5.

[27]Back cover, Mises, *Notes and Recollections* (South Holland, Ill.: Libertarian Press, 1978).

[28]New York: McGraw-Hill, 1980.

[29]*Notes and Recollections, op. cit.*, p. 115.

[30]*Cf. The Anti-Capitalistic Mentality* (Princeton, N.J.: Van Nostrand, 1956).

[31]*Notes and Recollections, op. cit., idem.*

[32]See Hayek's tribute to Mises in Margit von Mises, *My Years with Ludwig von Mises* (New Rochelle, N.Y.: Arlington House, 1976), p. 190.

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Clarence B. Carson

Prescription for Expensive Education

SOME years back, I ordered a typing table for my study from a large mail order house. It came in a few days, and I picked it up at the local store. It was the table I had ordered, was of the correct size and quality, and I was pleased with it. There was only one problem. When I looked at the bill, I discovered that it was for several dollars more than the advertised price. They had obviously billed me for a larger or higher quality model. I pointed out the error to a clerk at the store and suggested that they attend to correcting it. The problem was too complex for a clerk, and the store manager was summoned to deal with it. He assured me that the best, if not the only, way to correct the error was to reorder the table. Then, when the new table arrived, I could return the other one, which would be shipped back to the mail order warehouse, claim the newly arrived table, and all would be well, hopefully.

I objected that this was the long way around, and expensive, to solve a simple problem. But to no avail. The manager was adamant: it would be dealt with his way or not at all. I gave in. And, eventually, I got my table, exactly like the one I returned. For all I know, that manager continued his climb up the ladder of managerial success, though my suspicion is that he had already risen a rung or two above the level of his competency.

Be that as it may, it is easy to see that the manager had followed an awkward and expensive route to the

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goal. There was not only the expense of shipping a table to and from the warehouse but also I had to go to the unnecessary trouble of repacking the other table, returning it to the store, and picking up a new one. It is not always so easy to detect the fact that something is being gone about in such a way as to make it much more expensive and difficult to accomplish than it might otherwise be.

A Major Item of Expense

Many Americans are aware, of course, that education costs a great deal today, though the total cost in financial terms even, may not be fully felt because of the indirect ways in which much of it is funded. But education is the largest item of expense in many state budgets. It is often also the largest single item for many county and local governments. For a good many years now, it has been an increasing expenditure of the federal government. In those states and localities where the property tax is relied on mainly in financing public education, rates have become so high as to provoke taxpayer resistance here and there. Still, the high cost of education is widely accepted as inevitable.

For many years now, we have been set on a course which resulted in ever more expensive and inefficient methods of providing education. Indeed, if I were assigned the task of devising the most expensive and extensive system of education I could conceive, I would have to think hard and long to improve on the one we now have. Nor would it be easy to conceive of a more ineffective one, though it might be done.

Lest I be misunderstood, however, let me hasten to point out what I do *not* mean by the above remarks. It is not my point that teachers are paid too much, that buildings are too expensive, that bus drivers are paid handsome wages, that busses are too costly, that too many frills have been added to education, or that there are too many high-paid administrators. Such criticisms may or may not be valid in some schools, in some school districts, or, for all I know, in a great many of them. But whether they are or not, such things are not the basis of the above observations.

Nor is it my intention to set forth some general theory of education or in that or any other way to tell parents how they should go about educating their children. It seems to me that the mind set which has produced such theories or prescriptions is one of the things which has led us into the present educational morass.

On the contrary, I shall assume what I believe to be true, namely, that children differ greatly from one another in their interests, in what they are likely to learn, in what they want to know, in the ways in which

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they can come to any desired knowledge, and that how, what, and when any particular person shall learn something is no more capable of being settled than is the question of how, what, and when we shall eat. If that be some sort of theory of education, then so be it, but it is certainly remote from any which would provide a regimen for all children to follow, willy-nilly. And that is the only point I want to get out of the way.

A Formula for Waste

Now, to my point. Here is my prescription for expensive education. (1) Equate schooling with education. (2) Compel all children to attend school up to a certain age (i.e., take from parents and guardians the decisions about when, what kind, and how long their children will attend school). (3) Take the provision of schooling out of the market. (4) Provide free (i.e., tax supported) schools, free textbooks, free transportation, and free (or subsidized) lunches. (5) Assemble large numbers of students in centralized schools. (6) Provide a common regimen of grades and courses through which students are expected to go. (7) Make socialization a primary purpose of schooling (i.e., make social promotion the rule, and try to hold all children to the same level of others of the same age). (8) Have state certification of teachers. (9) Pay teachers on the basis of amount of schooling they have had and the number of years they have taught. (10) Adopt uniform pay scales. There might be a few other things which are or are not done that might be added to the list, but those listed are virtually universally practiced throughout the United States, and they will serve adequately as a prescription for expensive (and inefficient) education.

Actually, the prescription for expensive education can be succinctly stated this way: Take education out of the home and the market, specialize it, and separate it from the workaday world. At any rate, this latter formulation contains my central point, namely, that the way to make education expensive is to take it out of the home and market. But there are some important subsidiary points to be made, so let the more extensive listing stand.

The equation of schooling with education set the stage for the development of education along the lines it has taken. It is usually assumed rather than asserted, for it will hardly stand up under analysis. Education is qualitative; schooling is quantitative. Schooling can be precisely measured, while education is never more precise than being a matter of degree. Children can be compelled to attend school. They can hardly be compelled to learn.

Everyone who was educable and who lived long enough has always

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been to some degree and in certain ways educated, though a large number of people who have lived on this earth have never attended school. It is possible to be much schooled and have very little by way of education. On the other hand, it is possible to be well educated (whatever that may be taken to mean) and never to have attended school at all. The most that can be said for schooling is that it is one among many ways by which one may be educated. This is *not,* let me emphasize, a brief against schooling, only an effort to put schooling in the much broader context of education.

Learning in the Home

Much of the education of children has always taken place in the home and surrounding environs. It still does, though not nearly so much positive education as in former times. (Children are much more apt to be told what not to do in the home nowadays than shown what to do. That is so because there is so little of the house and yard work that children can do, or that their parents want them to do. Complex and automatic machinery has either made it dangerous for small children or unnecessary for anyone to attend it.) I do not mean by education in the home, schooling. Something akin to schooling has sometimes been accomplished in the home, and there are a few parents who are attempting it today. But the home probably never was an ideal environment for formal schooling, and it almost certainly is not today.

Perhaps, the role that the home used to perform in education can best be discussed in the broader context of apprenticeship training. Much of the education that people acquired in the past began with their training as apprentices. The training of apprentices usually involved little or no expense either for the master or the student. In most jobs, the apprentice could be helpful enough to defray the cost of teaching and supervision from the very beginning. Before very long, if he was apt, he could probably do simple jobs well enough that the master actually was the gainer in the relationship financially.

We are accustomed to think of apprentices today only in such lines of work as plumbing and carpentry, but most work used to be learned in this way from a master. This was true not only of such skilled crafts as shoemaking but also what are now considered to be professions, such as law and medicine. Indeed, the modern school is in derivation largely an abstraction and specialization of the master-apprentice relationship. In the process, of course, it was largely separated from the workaday world and began its march toward becoming most expensive.

But the home was the main place

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for the training of apprentices through the ages. To see this, it will be helpful to think of apprenticeship as going much beyond specialized skills. Girls usually served their apprenticeship as homemakers and housekeepers in the home. Under the supervision of their mothers, they learned to cook, sew, wash, iron, clean, and do the myriad tasks associated with keeping a home. On the farm, boys usually learned the jobs of running a farm by serving as apprentices to their fathers.

On-the-Job Training

Education has been taken out of the market, largely, in two ways. The first one takes us back to apprenticeship. There are still some jobs that are learned by the apprentice route. Plumbing, carpentry, and bricklaying come to mind. A goodly number of others are learned mainly on the job, such as service station attendant, but there are now formidable difficulties placed by law in the way of learning on the job. There is, of course, required school attendance for the early years. In addition there are child labor laws, and, much more to the point, minimum wage laws. The minimum wage requirement tends to make on-the-job training, or apprenticeship, too expensive for employers except where very simple tasks are involved.

Often, too, there are schooling requirements for licensing or certification. A major exception to this in the professions is legal training; many states require only the passing of the bar exams, not specific amounts of schooling. The trend, however, has long been toward extensive schooling, and that has become the accepted mode for becoming a lawyer. Both social and legal pressures have long been in the direction of extensive schooling in the United States. In practice, on-the-job training has become too expensive for most employers. It has been largely taken out of the market, and an inexpensive method of education is no longer generally available.

Below-Cost Pricing

In general, though, education has been taken out of the market by pricing schooling far below its cost or giving it away. Free tax-supported elementary and high schools (plus kindergartens, in most states) and heavily subsidized technical, college, and university schooling have driven most alternative modes of education out of the market and made it exceedingly difficult for private schools to compete. To put it another way, schooling has triumphed as *the* mode of education in the United States. Compulsory attendance and tax support have accomplished that. And, state supported schools have tended to price all others out of the market.

Schooling, *per se,* is probably the

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most expensive mode for getting an education, with the possible exception of hiring a tutor. We would all see that, probably, if education were freely available in the market at its market price. Not only does it involve such costs as hiring a teacher, providing classrooms, transportation to the place where the class meets, and so forth, but it is also time-consuming for the students. Schooling necessarily entails a regimen of learning that includes much that a student may not want to know, and thus will learn only as a result of the most intensive methods of teaching. Other students are often a distraction to learning, and those who learn more quickly are apt to be held back to the level of the class as a whole.

Even so, schooling would almost certainly be one of the alternative modes of education available in a free market. It has some advantages over other methods of education. The very fact that there is a regimen, or course of study, usually results in a broader education than would otherwise be obtained. Self-educated persons, for example, are likely to have gaps in their knowledge which may be less likely in schools. There are social dimensions to schools, too, which many might prefer and find beneficial. Other students may sometimes be a distraction, but they may also provide competition and a spur to learning.

Increasing the Options

What we could expect, however, if schooling were provided in the market, would be a great variety of schools. Instead of one elementary school in a neighborhood, and a large high school which has resulted from consolidation upon consolidation, would be many different sorts and sizes of schools. Many church buildings, whose Sunday School rooms are rarely used except for an hour on Sunday morning, would probably be used for schools. But there is no need, at the elementary level to have all grades or classes in a single building. Classes could be held in any suitable (suitable to the parents, that is) room or space that a would-be teacher could provide or rent. There might well be chains of schools to cater to those with a preference for uniformity or nationally recognized schools.

But the variety would surely extend much beyond that of facilities. The competition for students could lead to much experimentation in the least expensive and most effective ways to teach courses. In any populous area, there would be a great variety of emphases: there would be traditional schools, experimental schools, schools following this, or that, or the other plan. There would be one-teacher schools and, possibly, very large schools. Those who wanted a strong academic emphasis would find schools and teachers willing and

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eager to provide it. Those who wanted various kinds of manual and technical training would have that provided as well.

The greatest changes, however, would most likely be in non-schooling education. This would be the case, especially, if all elements of compulsion were removed from education and the notion abandoned of education as something to be publicly provided. It is difficult for any of us to imagine now the distortions that compulsion has wrought in the acquisition of learning.

Our system of education is the result of a century and a half of gradual growth and proliferation. As a consequence, few, if any, of those now living have experienced education without decisive elements of compulsion. It has conditioned our thinking to the use of force far beyond what the state requires. For example, privately financed schools are likely to be modeled on state schools, in ways that might be avoidable even in the present compulsory setting. In any case, we have become habituated to the use of compulsion in education and find it difficult to imagine education without it.

Ways of Self-Education

There are many alternatives to schooling as a means of getting an education, both potential and actual. Training in the home and apprenticeship have already been discussed. Every sort of information imaginable is available to anyone who can read. Books, magazines, and newspapers abound. Television offers considerable potentiality for education. All sorts of mechanical devices have been invented which can aid the willing learner. Seminars and lectures provide learning within a social setting.

Once the individual and family assume the main responsibility for education and we begin to treat it once again as something to be desired, sought after, and mastered, many new aids to learning may be made more generally available. The widespread practice, particularly by government, of rewarding quantity of time spent at school rather than the quality of learning, may not actually discourage self-education, but it certainly offers no spur to it. A widespread reversal of this practice should do much to stimulate people to improve themselves.

My main point, however, is that tax-supported, subsidized, and compulsory schooling is a prescription for expensive education. Not only does it place the major burden of paying for education on the public at large but it also bends us toward the most expensive method of providing it, namely, schooling. Above all, the provision of education, especially schooling, has been substantially removed from the market.

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A Hampered Market

We have a severely hampered market in education. It is hampered, in the first place, by compulsory attendance laws. These, in turn, are supplemented by child labor laws and the minimum wage. In consequence, large numbers of children are forced to attend school who have little or no inclination or interest in learning. This hampers learning in the schools, turning them into places of confinement rather than learning in many cases, and saddles the public with costs of the undertaking.

The market is hampered by the difficulties which private schools have of going into and staying in business in the face of free public schools. It is hampered by teacher certification requirements which keep many who would teach from entering the field. It is hampered by pay scales which place a premium on amount of schooling. It is hampered because state rules force so much of the effort at education into the framework of schooling.

As a result of the severely hampered market, there are many questions that cannot be answered. For example, how large is the market for schooling? Probably, it is much smaller than the number presently attending school, else compulsory attendance laws might be superfluous. (It should be noted, however, that compulsory attendance serves other important functions for those concerned with maintaining state power over schooling. Compulsory attendance is the main basis for government controls over private schools.) There is just no way of knowing under the present system. Nor can we do anything other than guess at the market for other approaches to education than schooling because of the preference accorded schooling.

No Competitive Pricing

How inexpensive could schooling be? The hampered market does not enable us to answer the question. There is not the level of competition that would provide the answer. Many would-be teachers cannot enter the field. Compulsory attendance provides an artificially higher demand than would actually exist. Fixed pay scales and union contracts take the determination of teacher and administrator wages out of the market. The use of buildings only as schools increases the cost of facilities.

But even if we could determine under the present system how inexpensive schooling might be, we would still not know how inexpensive education might be. And that is surely the most important question. The answers to all these questions can only be found in a free market for education.

We have all become accustomed to the use of force in the providing of

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education. And, since we are accustomed to it, we tend to accept the consequences as more or less unavoidable. Moreover, we tend to make comparisons only among state-supported systems of education. Hence, we are unlikely to notice how expensive they are, if a system compares favorably with other like systems. We think of paring costs and improving education within the same framework as do members of boards of education of tax-supported schools.

That is why I introduced this piece with the story of the typing table. Few of us are accustomed to returning a piece of merchandise which we want to the store to pick up one just like it in order to have a price adjustment made. To do it that way is clearly a prescription for expensive merchandise. I wanted to invite attention to the possibility that it is possible to go about something in an unnecessarily expensive and inefficient way. We know that, of course, but it requires some hard thinking to see how and why in a long-established system.

Education is, of course, different in many important respects from a typing table. It is infinitely more complex, more subtle, more varied, and requires much more effort to attain, to mention a few of the ways. In one respect at least, however, they are alike. They are both economic goods. That is, both are scarce, are in demand, and are costly.

False Signals

The provision of education free or highly subsidized to the recipients, at taxpayer expense, of course, makes it appear that education is not an economic good. It appears to be a surplus which must be sold at cut rates or given away to be rid of it. More, since many of the recipients are compelled to partake, whether they will or not, it looks for all the world like an economic "bad." On the other hand, it has been promoted as something of such value and importance that whether or not one should have it should not be left to the choice of children or their parents. In short, it was largely removed from the category of economic goods.

This was nowhere better signified than in a publicity campaign that went on for many years. Some organization would compile figures on how much each state paid teachers on the average, and how much was spent per child on the average. It might be supposed that the purpose of these figures was to discover which states were accomplishing the task most economically. It might be supposed, further, that responsible officials from the states that were spending more would hasten to study how those states that were spending less were managing to do it. That was not the point at all, however. Those states that spent the most got the highest ratings, while those that

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spent the least got the lowest. That had all the cogency of attempting to prove that tomatoes taste better in the winter because they cost more. What it does prove is that those who publicized the ratings were determined to ignore economic considerations.

So far as I am aware, there is no necessary correlation between the amount of money spent and the quality of the education obtained. That it is an economic good simply means that, other things being equal, those minded to be economical will prefer the less expensive approaches to education to the more expensive. Two things mislead us as to what is economical in education at present. One is the effort to quantify education by schooling. The other is that the recipients do not usually bear much of the cost of the schooling. Thus, so far as schooling is considered to be an economic good, it appears to be quite a bargain. To remedy that, or rid ourselves of the illusion, it is necessary to think in terms of actual costs.

The prescription for expensive education is to take it out of the home and market. The prescription for inexpensive and effective education is to restore authority and responsibility for it to the parents and recipients and permit it to be provided in the market.

IDEAS ON LIBERTY

The Case for the Private School

A CENTURY ago education was almost entirely privately supported and controlled throughout the United States. Indeed, it was not until the early years of the nineteenth century that the first free school (for Negroes, incidentally) was established in New York City. Schools were operated by religious organizations or individual educators. The parents directly paid tuition with occasional benefactions from grateful alumni. The private schools turned out fewer graduates proportionately than now emerge from the government (public) school system, but there was no criticism that these could not properly read, write, spell, and figure, nor that they were ignorant of geography, civics, and the great Christian principles that motivate men. Under this diverse system based on various educational philosophies and with widely varying curricula, the percentage of literate persons was not only large and increasing but regimentation of instruction was impossible, and there was wide experimentation. This diversity by its very nature enriched our culture.

GEORGE S. SCHUYLER

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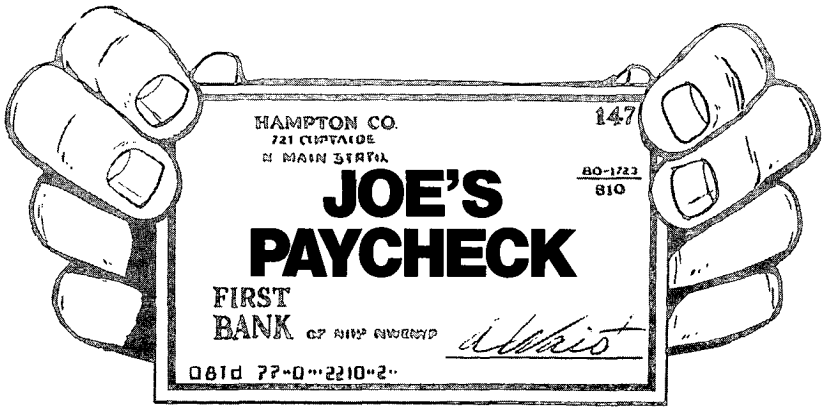
Brian Summers



EARLY one evening I was on my way to the bank, when my friend Joe greeted me with some good news.

"I got a raise today," he announced, holding up his pay envelope. "I never thought I'd be able to support my family so well. Sure beats when I was a kid."

"That's great!" I replied as we walked along. "These days we certainly do live better, even though our parents worked longer hours."

"Of course," he answered. "We have better technology. The tools and equipment we use make us more productive. In the old days, workers had to perform most jobs by hand. It used to take a whole crew to do what one man now does faster with a bulldozer."

"But why does your company pay you more just because technology has made you more productive? Your employer, after all, is the one who provided the machines."

"I think management is afraid we might bring in a union," he answered.

"Maybe so," I replied. "But what would you do if your paycheck didn't reflect your increased productivity?"

"Look for another job."

"Of course," I said. "Your company knows that you won't continue working for them if they don't pay a competitive wage—union or no union."

"You are saying that competition,

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in addition to better technology, has a lot to do with my bigger paycheck."

"Yes. Many workers use the same technology year after year. Yet even they benefit when other workers are provided with better equipment."

"How's that?" he asked.

"In a free market, all employers compete for workers. When some employers can offer higher wage rates because improved equipment has made their employees more productive, competition will raise the wages of all workers. For instance, if you want to keep your best laborer from going off to work in a new factory—or taking a job that has been vacated by someone who went to work in a factory—you had better give him a raise.

"Here is another way of looking at it," I continued. "Improved tools and equipment lead to increased production. With more goods and services entering the market, everyone's paycheck buys more. Even if nominal wage rates should fall in a deflationary period, real wages would continue to rise as long as investors make more capital available.

"Capital is the key to real growth. Everyone benefits when savers furnish the investment capital needed to create better tools of production."

"If investment capital is the ultimate source of higher real wages, what about labor unions?" he asked. "Many people think unions are the reason wages are rising."

"Have you ever seen a picket line?" I asked.

"Sure."

"Who were they trying to keep out?"

"Strike-breakers."

"Precisely," I answered. "Unions try to increase union paychecks by denying paychecks to nonunion workers. These excluded workers have to settle for whatever jobs are available in the nonunion sector. Because of union obstructions, some workers are prevented from getting better jobs.

"And to make matters worse, unions often wind up hurting the very workers they are supposed to help. Look at the auto and construction unions. Union wage demands have priced many union workers out of their jobs."

"I see that some unions are trying to protect American workers by supporting import quotas," he noted.

"Sure," I replied. "They want to protect union jobs by preventing other Americans from spending their own paychecks as they see fit. Are you and your family helped by such tactics?"

"I never thought of it that way," Joe said as he cashed his check. "Maybe we should pay more attention to what people do, rather than what they say."

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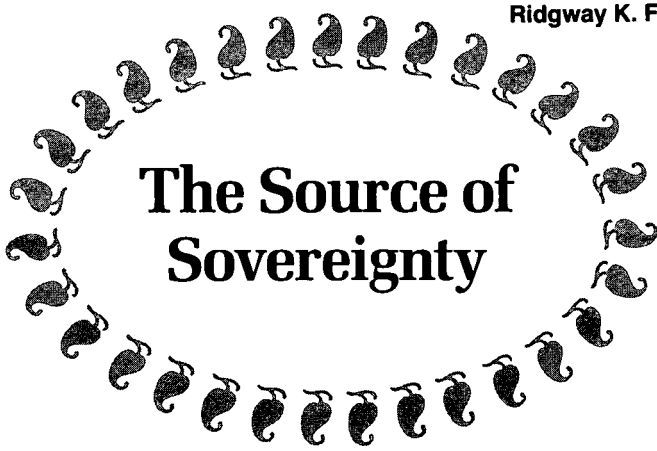
Ridgway K. Foley, Jr.



The Source of Sovereignty

I. PERSPECTIVE

THE concept of sovereignty—the monopoly of coercive power wielded by the state—lies at the root of almost all statist dreams and schemes. It provides the jurisprudential underpinning to the thrust of political power. It seems to war with the essential nature of justice, respect for free human choice. As such, it merits investigation and analysis in an attempt to define the source supporting the principle and to discover whether or not sovereignty and justice can reside in harmony.

Measured historically, the analysis of sovereignty experienced a relatively recent birth, although one can surmise that the existence and practical application of the tenet far antedated its recognition and analysis. Most commentators have considered definitions and location of sovereignty, with little attention devoted to the crucial inquiry of the *source* of sovereignty. This essay peruses this critical question.

As a working definition, sovereignty is the ultimate justification for the application of coercive force by the organized state to individuals residing within the territorial perimeters of that organization or linked to it by means of birth, allegiance, contract or custom. Thus, one cannot comprehend sovereignty without attention to two interrelated concepts of state and citizenship. The state is that unit which exercises sovereignty: the application of justified coercion within a given territory. Citizenship refers to the relation of person to state: the

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recognized rights, powers, duties and privileges of an individual subject to the coercive monopoly controlling within the perimeter in which that individual resides or is found.

Conflicting Forces of Civil Chaos and Ordered Slavery

In pre-Reformation times, no one truly analyzed sovereignty. It existed. Tribes, city-states, and incipient nation-states applied coercive fetters to people (citizen and slave alike) subservient to the unit. Power often justified force without recourse to legal niceties; few if any philosophers discoursed upon the reason or justification supporting the chief's decision to punish or ostracize a citizen for real or imagined crimes, derelictions of duty or just plain differences of opinion.

While nomadic hordes displayed little or no sense of property or territory, they did reflect customary control over those persons annexed to the tribe by birth or fealty. This concept gained territorial status in addition to other links with the advent of manorial domains and like territorial units, units which eventually merged, often through bloody internecine warfare, into the modern nation-states. In other words, states pre-existed the articulated concept of sovereignty. Early, well-developed civilizations offered incisive and detailed doctrines of citizenship without a clearly defined discussion of the attributes and problems of sovereignty.

While the multitalented fourteenth-century physician, Marsilio of Padua, groped toward the modern notion of sovereignty in his *The Defender of Peace* (1324), it remained for Jean Bodin in his *The Six Books on the State,* published in 1576, to undertake the first systematic and clear excursion into sovereignty. Bodin lived in a time of turmoil which caused him to hunger for peace, contentment and security. This drive undoubtedly fueled his desire for a strong government designed to curb the excesses of plunderers and pirates so rampant in Reformation times. Yet those who desire imposition of such control often fail to perceive, or to deal effectively with, the equally troublesome problem of a marauding government committed to subordinating its people in the good name of order. Indeed, the conflicting forces of civil chaos and ordered slavery mark the development of the doctrine of sovereignty.

Both Marsilio of Padua and Jean Bodin drew the critical distinction between "government" and the "state," the execution of sovereign functions (limited) from sovereignty itself (perpetual); sovereignty exists for as long as the state exists, regardless of the changing forms, policies and personnel of the government. Neither thinker, however,

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delved deeply into the source of his subject.

Other political philosophers—Thomas Hobbes, John Locke, Jean Jacques Rousseau, G. W. F. Hegel, and John Austin, to name a few—wrestled with the idea of state sovereignty and citizenship, but their discussions tend to emphasize the obligatory nature of the state and the subject's duties to it and attempt to locate the sovereign in the modern complex state. Few ask the truly decisive questions related to the source of sovereignty: what is the basis for the existence of the state, how does that coercive unit harmonize with the concept of justice as respect for free choice, and what limits ought to be placed upon the sovereign *vis-à-vis* citizens?

The tradition promulgated by the studies of the last four centuries has at least isolated six elements normally attributed to a sovereign state: (1) the justification for the collective use of force; (2) the existence of a state; (3) the boundaries of a circumscribed territory; (4) the absence of any competing and recognized countervailing political power; (5) the compulsory allegiance of the inhabitants to the state; and, (6) a legal equality, among the community of states, to carry on and judge its own internal affairs. Again, these definitive elements merely *describe* sovereignty; they do not purport to explain its source.

II. POSSIBILITIES

While many philosophers have expended considerable effort in the process of defining and locating sovereignty, relatively few have rigorously attacked the seminal problem of the source of sovereignty and the reasons justifying imposition of limits upon nonaggressive man. A working definition sufficiently identifies the subject. The location of sovereignty poses an interesting but moot problem unless one assesses the utility of the concept altogether. Several possible sources of the doctrine exist and merit consideration. Each of several theories possesses at least a glimmer of validity.

(A) Does Sovereignty Derive from God?

For the tradition represented by John Locke, sovereignty developed as a religious concomitant. Man resided in a State and a Society because Divine Providence expected and directed such a venture.

Reflection advises that no Supernatural Being ordained any specific form of government nor did He approve the application of force to peaceable human beings. One cannot conceive of an Ultimate Loving God imposing a system upon His creation which leads only to oppression, injustice and bloodshed.

Nonetheless, a grain of truth resides in the postulate. Christians ac-

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cept the existence of a Natural Law, immutable and inexorable, governing the universe. Man possesses the capability of ignoring that Natural Law but, if he does so, he must pay the price sanctioned for disobedience. One fundamental rule of Natural Law—the second axiom of human action—is that man makes mistakes. If sovereignty derived from God implies that finite man can best govern his errant self in a structured state which reduces human friction and lessens or thwarts individual impulses toward destruction then, to that extent, the Lockean tradition may be judged correct. The questions remain, however: what of justice and what limits should be imposed upon free choice and action? To attribute specific forms and regulations willy-nilly to a Supreme Being amounts to dictation to a Deity.

(B) A Social Compact

The attitude that sovereignty resulted from some sort of formal or informal contract or agreement between citizens for their mutual advancement and protection crops up in varying guises from ancient to modern times. From Bodin and Hobbes this discipline extends in some form or other to the Kelsenite theory today; perhaps the fact that it contains a partial truth accounts for its tenacity, yet the psuedo-romantic vision developed by Rousseau ought to be quelled once and for all time, since it leads to the omnipotent state. Perhaps at some time lost in the dim past, a group of men in a given territory met and banded together for economic betterment and personal protection, although one encounters grave difficulties in envisioning a "social contract" in the formal sense where all inhabitants solemnly vote allegiance and then inscribe their names on a dusty parchment. Moreover, one cannot assume total assent to all terms of the bargain, leaving one wondering the source of authority to bind dissenters (whither sovereignty).

The most devastating attacks upon the theory supporting a "social compact" emanate from the nineteenth-century anarchists, Lysander Spooner[1] and Herbert Spencer[2].

Spooner cogently argued that assenting parties to a constitution or law cannot logically bind unborn future generations even if one could stretch a point to urge that the assenting majority bound all persons residing in the same territory. (Since the franchise exists sparsely today, and even more scantily in antediluvian times witnessing the development of most constitutions, and since

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[1]See Spooner, Lysander, *No Treason: The Constitution of No Authority No. 6* (Ralph Myles Publishers, Inc., Colorado Springs, Colorado, 1973).

[2]Spencer, Herbert, *The Right to Ignore the State,* (Cayman Press 1973).

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many of the enfranchised failed to exercise their right to accept or reject the basic norm by voting for reasons of dissatisfaction with the apparatus or the alternatives, one cannot validly conjecture that majorities adopt constitutions. What is the source that binds the nonparticipants to the result: sovereignty?)

Spencer powerfully demonstrated that a dissenter cannot be made a party to an agreement in spite of his choice (if justice and morality are founded upon the respect for free choice). Thus, while the social compact theory enjoys some practical value, it fails to withstand rigorous analysis and it fails to accord with known historical fact.

Again, however, bits of value occupy the social compact theory. Many persons pledge allegiance to a state by choice or by indifference: they live under the laws of the state and partake of its social, economic and political system by use and active participation. One could cogently argue that such persons have entered into a social compact, *sub silentio,* and ought to be bound by it. Such analysis does not deal adequately with non-aggressive dissenters in the territory who merely wish to be left alone to choose their own destiny.

(C) A Natural and Necessary Process

One could urge that territorial sovereignty represents a natural imperative—every bit of land must have a government. Recorded history reveals periods of time when civilizations existed in migratory fashion and no ownership of real property by the "state" was deemed important. Certain North American Indian tribes developed a relatively high degree of culture and social structure *sans* any tenet of absolute ownership of the territory on which they resided. European gypsies betray identical mores, as do some African tribes. Hence, the argument of a natural process proves too much and cannot stand alone as the ultimate justification for sovereignty.

There is something to be said for a more thoughtful articulation of this proposition. Sovereignty refers to a concatenation of individuals, territory and power. Within a given space occupied by human beings, destructive forces and insoluble disputes arise. A natural process may recognize the need for some accepted means of preventing the application of force to nonaggressive persons and finally ajudicating disputes between clashing inhabitants. After all, Great Britain and the United States both professed sovereignty over the Oregon Territory in the early nineteenth century, but no official government existed until the Champoeg incident, provoked when the wealthiest man in the territory, Ewing Young, had the audacity to die with property, without a will, and *sans*

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heirs. Whether logically necessary or not, the inhabitants of the Oregon Territory believed that such an event required the formation of a government unit to probate the estate and settle, once and for all, in an orderly fashion, who should receive Mr. Young's property.

(D) The State as the Source of Sovereignty

Perhaps the least likely source of sovereignty resides in the state *per se,* although several of the early thinkers point in this direction. Sovereignty represents an *attribute* of the state; is it not unreasonable to insist that that which is being described also supplies the source of the attribute? To view the state as the fountain of its own power is to indulge in some sort of Hegelian view of an artificial entity as an organic being.

Nevertheless, even here one can discern kernels of wheat among acres of chaff. The state exudes power or force. Continued existence of the state and impelled allegiance of citizens can be accounted for by the real or implied threats of coercion for noncompliance. Such coercion may take many forms, from ostracism, persuasion, refusal of favors or nonrecognition, to actual deprivation of personal property and unmitigated violence. Thus, in a very real sense, fear of power may supply some justification for the existence of the state and, hence, for the attribute of sovereignty.

III. HYPOTHESIS

I propose as a hypothesis that the source of sovereignty resides in a Rule of Necessity—a principle which seems to collide with justice but which, in fact, makes true justice possible. The Rule of Necessity extracts the value from the suggested sources of sovereignty discussed heretofore and blends them into a working theory.

Let us commence with certain known factors:

(1) Man acts and chooses between alternate courses of conduct based upon his subjective values;

(2) No man possesses the capability of making a better choice for any other individual than the actor himself;

(3) Justice and morality require respect for individual free choice[3];

(4) Man is finite and fallible; one side of his nature is aggressive and violent, and that aggression and violence may, on occasion, be directed against other beings who seek no conflict and do no harm;

(5) The state (or the government of the state) coerces free men by imposing restraint upon their voluntary conduct and by substituting the

[3]See Foley, Ridgway K., Jr., "In Quest of Justice," 24 *Freeman* (No. 5) 301, 302 (May 1974).

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subjective values of one group or individual for those of another group or individual by means of force or threat of force.

Positing these givens, we become cognizant of two facts: (1) The state violates the principle of justice by restricting absolute freedom of choice; and (2) The state appears necessary to curb man's sinister excesses and to permit untrammeled creative choice.

These propositions compel some explanation. Man cannot be truly free if his range of alternatives receives limitation from his fellow man, acting either as an outlaw or under color of law. Neither a slave nor a victim of crime is free to the extent that his choice is impaired. To the extent that the state restrains every individual within its boundaries from acting in a forcible and fraudulent manner and decides disputes which the parties cannot adjust voluntarily, the state makes maximum freedom possible and provides the necessary condition for justice. Provision for these conditions constitutes the only acceptable moral justification for the doctrine of sovereignty.

Thus perceived, a meld of the suggested sources of sovereignty (God, contract, natural process, state) seems to supply an apt answer to the inquiry: what is the true source of sovereignty? Sovereignty flows from man's fallible nature, his intrinsic predilection to violence. It relates to man's cognizance of this shadowy side of his own being and his tacit or explicit agreement to band together with others to provide a mutual defense against aggression by force and deceit. Necessity impels this result in the sense that man alone cannot fend off a horde of aggressors colored by the dark side of human action.

Proper Limits to Sovereignty

Consideration of the rationale and the source of sovereignty stimulates an expedition into the topic of the proper limits to sovereignty. Lacking logical analysis and troubled by a dangerous world, Bodin and his intellectual progeny imposed cumbersome and inexplicable limits upon the concept. Why, for example, render the succession to the French crown immutable? Or, how do we define and discover the laws of God which cannot be ravaged by the sovereign? What destroys the essence of sovereignty as punishment for these heinous crimes when, by definition, the sovereign possesses no equals or inferiors? Totalitarian nations have all perpetrated crimes against individuals and states of unparalleled bestiality and viciousness in the past 50 years, yet no one realistically would deny them their role as sovereign nations.

Nevertheless, sovereignty requires distinct limits else we come face to face with the Hobbesian ab-

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solute monarch or Rousseau's tyrannical general will. Allow me to suggest the perimeters of sovereignty: a sovereign nation enjoys the legitimate power to protect individuals living within a given boundary from the initiation of force and fraud by groups or individuals residing within or without those boundaries and to compel settlement of irreconcilable individual disputes according to common principles of justice. Within these narrow confines, the state reigns supreme; beyond these barriers, the state possesses no moral authority for the justifiable application of force.

Acceptance of this definition imperils many subservient concepts of territory, of citizenship, of allegiance.

No longer need the state own all property within a given border save that small portion carved out by private citizens and held subject to the whim of the government. The state need own little or no property; all other land unclaimed by individuals may stay in a natural state until claimed and employed by acting, creating human beings. The concept of state dominion over realty represents a curious atavism to feudal days where the lord of the manor owned all the land worked by his serfs; it does not harmonize with modern libertarian thought.

No longer need the resident of a given territorial unit pledge allegiance to a plunderer-state nor carry out its onerous obligations of citizenship. Man must be free to move about the globe within a minimum of externally imposed restraint; he rightfully remains subject only to the cardinal principle of justice that he maintain respect for the free choice of others and not initiate force against them. Sovereignty need not affect the dweller in a given territory in the absence of two instances: (1) commission of a crime or initiation of fraud, or (2) involvement in a dispute with another person or persons which the parties cannot resolve by private means.

Justice Involves a Cost

One who lives peaceably and without conflict need never touch the law nor encounter the sovereignty of the state, although he will benefit from life in a setting protected against initiation of force. Even a victim of force or fraud need not call upon public authorities to remedy the situation so long as the *victim* does not initiate force against the aggressor. Like the litigant in a dispute, he may conclude his difficulties by private means. The victim of a theft may search out his oppressor, confront him, and induce restitution. While seldom accomplished in violent crimes, the opportunity remains.

The preservation of justice involves a cost, like every other choice

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or activity in this world. Inhabitants of a territory could defray this cost either by means of general taxation or prorated payment by those who use the system. General taxation justifies on the ground that all domiciliaries benefit from a peaceable community although it seems unfair to impose a burden on one who never directly employs the system. In a sense, however, all inhabitants do use the system since an apparatus of common justice benefits everyone by its deterrent effect and court-of-last-resort aspect. User payments may be fairer although indirect beneficiaries will not share the cost and the user system poses fiscal and administrative problems.

In sum, one need encounter sovereignty only if he voluntarily transgresses upon the right of another to exercise his free choice and either is unable or unwilling to negotiate and compromise the matter voluntarily. In those instances, state must remain ready and able to prevent civil chaos by the application of collective force.

IDEAS ON LIBERTY

Laws Follow Rights

How do *you* determine a right action by government from a wrong action by government? Can you, without using the concept of majority vote, write out an answer that satisfies you? If you can, I will apologize. And I will happily include you among the increasing number of Americans who are seeking a basis for collective governmental action that is more permanent and fundamental than the passing whims and passions of imperfect people—whims and passions that are too often inflamed by demagogues who are themselves less perfect than the people they wish to lead.

Personally, I am convinced that the solution is to be found in the original American concept that all rights begin and end with individuals; that every person has an inherent right to his life, liberty, and property; that he may exercise his rights fully, so long as he does not violate the *equal* rights of others; that we may delegate the defense of these rights to our government; that any action that is illegitimate for persons is automatically illegitimate for government; and that we should never regard government as any more sacred than any other useful organization that provides us with specialized services we want at prices we are willing to pay.

P. DEAN RUSSELL, "Sources of Governmental Authority"

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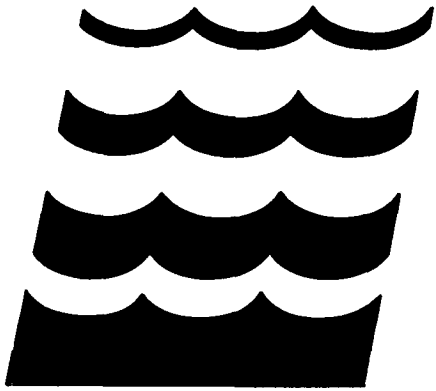
William R. Hawkins

REAFFIRMING FREEDOM OF THE SEAS



FREEDOM OF THE SEAS is one of the oldest principles of international law. It is the right to navigate through the global expanse of the oceans as one sees fit, carrying what cargo one wishes. It is also the right to extract resources from the seas by one's own efforts. Though not fully articulated until the publication of Hugo Grotius' *De Jure Belli ac Pacis* in 1625, it was a principle that had been evolving since ancient times wherever commerce flourished. It is a principle based soundly on property rights. Beyond a narrow strip of coastal waters (traditionally set by another Dutch jurist, Cornelius von Bynkershoek as three miles—the effective range of a 17th-century cannon) the only claim to ownership is the private ownership of vessel, cargo and equipment. No government claim of territoriality or sovereignty is considered legitimate.

This concept of freedom was ideally suited to the requirements of commerce and economic progress and was the sea-going equivalent of the liberal principles of free trade and free enterprise. These three freedoms provided the triad upon which European liberty and advancement was built. As Robert Gilpin has observed in this regard:[1]

> In contrast to the cities of Asia and other continents, European cities have tended to be commercial centers rather than administrative capitals of great states and empires. As a consequence, the commercial and trading cities of Renaissance Italy, the Hanseatic League, the Low Lands and Rhineland Germany enjoyed a degree of autonomy unknown to non-European cities. They became the strongholds of merchants and bankers and protected this rising class against predatory feudal aristocracies.

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It was a principle that took root early in American history and became a basic tenet of United States foreign policy. Protection of the right of Americans to enjoy the free use of the oceans without molestation provided the reason for President Thomas Jefferson to send the first regular Navy patrols to the Mediterranean to combat piracy. It was the primary reason why the U.S. declared war on England in 1812 and on Germany in 1917.

Today, this principle of freedom is under attack in ways which are far more systematic than in the past when assaults were generally confined to piracy or periods of war. Today the very basis of international law is being challenged in ways that could permanently end all individual rights on the oceans.

Expanded Claims

The threat comes in two main forms. The first is the steady encroachment of national territorial claims. In 1958, only 18 states claimed waters off their coasts beyond the standard three-mile limit, but by 1968 this number had grown to 43 nations claiming 12 or more miles. By 1978, this number had grown further to 69, eleven of which claimed territorial waters of 200 miles. The U.S. has viewed this trend with alarm for it obviously restricts movement at sea and threatens the free passage of commerce through vital straits and narrow seas which may be entirely swallowed up as closed national preserves.

The United States has refused to recognize such inflated claims. It has protested seizure of American fishing boats off the coasts of Latin America and has preferred to pay ransom for the release of such ships than to permit American captains to buy licenses which would legitimize these new territorial claims. But the U.S. has not always used merely passive methods of protest. In August, 1981, U.S. Navy fighters shot down two Libyan jets over waters which Libya claims but which the U.S. does not recognize as anything other than open seas. As yet, most of the coastal states that have extended their claims lack the means to enforce them against determined opposition from a maritime power.

Of more serious import are attempts to establish an international agency to whom control of the presently open sealanes would be transferred. Unfortunately, the U.S. government has been a party to this effort.

At the root of this new and serious threat is a philosophical twisting of the traditional concept of the nonterritoriality of the oceans. Under this new approach, anything that is not claimed by a national government must fall under the control of a supranational governing body, for it is inconceivable to the minds of

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reformers and bureaucrats that anything can fall completely out of the jurisdiction of some sort of government regulation.

United Nations Control

In 1965 the Commission to Study the Organization of Peace, a research affiliate of the United Nations Association (a lobbying group of "idealists" who work to extend the authority of the U.N.) recommended that the ownership of the oceans and their seabeds be vested in the U.N. as an alternative to the extension of territorial claims by states. With typical socialist logic, the Commission also concluded that the U.N. could more efficiently develop the resources of the oceans than could private enterprise.[2]

The following year, President Lyndon Johnson surprised both the U.S. and the world diplomatic community by describing the seas as the "legacy of all human beings," a phrase which would be modified by successive statements by Washington and U.N. officials to become "the common heritage of mankind"—the central term used to justify all negotiations on the subject since. Common heritage has come to imply the need for common ownership, a need to be met by some international body which will presume to speak for all mankind.

Proposals followed in the United Nations, with most of the Third World hopping on the bandwagon. Vesting control of the oceans in the U.N. offered the less developed nations the opportunity to counter what they considered to be an inequitable advantage possessed by the technologically advanced Western states in terms of access to the seas. However, the initial reaction of the Congress was negative to such an expansion of U.N. authority. The State Department, though it favored movement toward international regulation, attempted to side-step the issue so as not to provoke a nationalistic reaction which would halt all movement toward an agreement[3]

Opposition also came from the Commerce and Defense Departments. The former sought to protect the interests of the oil industry which wanted free access to drilling on the seabed, while the latter was concerned about possible restrictions on military uses of the oceans, particularly as missile-equipped nuclear submarines became a vital part of the nation's deterrent force.

Common Heritage of Mankind

Policy was thus blurred in the late 1960s, though trends were taking shape that would become ominous in the 1970s. On May 23, 1970, President Richard Nixon proposed that a treaty be adopted that would renounce all territorial claims to the resources of the oceans in favor of regarding these resources as "the

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common heritage of mankind." The President called for the establishment of an "international regime" which would collect revenues from ocean operations for use by the developing countries. This suggested regime was not to operate on the one-nation, one-vote model of the General Assembly but was to reflect a balance of interests.[4] This statement of official policy opened a Pandora's box.

In 1973, the Law of the Sea Conference was opened under the auspices of the United Nations to draw up a treaty in the general form outlined by Nixon. Providing the muscle at the U.N. for the conference was the Group of 77, a bloc of Third World nations which actually numbers 114 members. This is the same bloc which, in 1974, pushed for the Declaration for the Establishment of a New International Economic Order. The Group of 77 has never hidden the fact that it sees the U.N. as a device for redistributing wealth and power from the Western capitalist nations to the Third World.

After eight years of negotiations, the rough form of the proposed treaty has become visible. Its centerpiece is the creation of a new supranational agency, the Seabed Authority which would be modeled on the U.N. General Assembly. It would thus operate on the principle of one nation, one vote and be guaranteed a permanent Third World majority hostile to the West. The Authority would have exclusive control over the issuance of licenses for the exploitation of the deep seabed beyond territorial waters. The Authority would also have the power to tax companies engaged in ocean development, the revenues collected to go to the support of the Authority and to projects for Third World economic development. The Authority would also have the power to fix prices, set limits on production and control the marketing of ocean resources. There would also be programs for the mandatory transfer of technology from multinational corporations operating at sea to the Third World.

A Seabed Authority

The result would be the creation of a vast, unprecedented power in the hands of an international government agency in which the U.S. and other industrial countries would have minimal influence. The Authority would be self-supporting from its taxing power and would thus be largely immune from the only leverage that the Western states now have over supranational organizations: control of the purse strings [5] (though initially the U.S. is to provide $250 million in interest-free loans and loan guarantees in order to establish the Authority). It would be the ultimate redistributive mechanism. A Third World majority would be enthroned in a position to tax and regulate the

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corporate entities of the "haves" in the interests of the "have-nots."

Even proponents of the treaty, such as Richard A. Frank who served the Carter Administration as head of the National Oceanic and Atmospheric Administration, have conceded that "even if amended by the United States, the treaty would represent U.S. acquiescence in multilateral and fairly democratic decision-making on resources and abandonment—in the first serious encounter over the new international economic order—of U.S. control commensurate with its interests as a producer, consumer and donor. The treaty would place restrictions on a previously free market and require U.S. financing of a multilateral competitor."[6]

The multilateral competitor referred to is the Enterprise. The Enterprise would be a supranational mining corporation established by the Seabed Authority which would operate in competition with private corporations to develop the oceans. It would provide another source of income and control to the Seabed Authority. It is envisioned that the Authority will require that private companies share their mining technology with the Enterprise and also do most of the exploration work for it.

As bad as this seems, it was initially to have been worse. The Group of 77 originally wanted to freeze private enterprise out of the oceans entirely. In their proposal, the Enterprise would have been a monopoly with competition banned by treaty. It was not until 1976 that then Secretary of State Henry Kissinger persuaded the Group to compromise and allow both private companies and the Enterprise to operate side by side. Yet, the Seabed Authority could very easily rig the game so that private companies could not compete on equal or even profitable grounds thus creating a de facto Enterprise monopoly.

Unlimited Powers

Certainly the existence of the Enterprise will provide a constant temptation to the Seabed Authority to use its taxing and regulatory powers in such a discriminatory manner. For instance, despite a proposed fee of $100,000 for a license and another $1 million per year for the right of exploration, plus additional fees and profit-sharing schemes should commercial development begin, there is nothing in the treaty that requires the Seabed Authority to ever grant a single license. If licenses are granted, one can well imagine what political terms the Seabed Authority might insist upon in addition to monetary payments. Corporations might be required to halt trade with South Africa or Israel or some other nation out of favor with the Third World majority

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or be required to take on joint-ventures with state enterprises of Third World nations.

The Seabed Authority would also be a ready-made cartel. It is assumed that the Seabed Authority would use its power to limit production and control prices so as to protect underdeveloped nations, which presently mine minerals for export, from competition from new mining operations in the oceans.

It is highly unlikely that in any of these situations the bureaucrats who would inhabit the Seabed Authority would take the side of the Western corporations. At the core of the elite which staffs the complex of international organizations is, according to Richard G. Darman, a "profound aversion to unilateralism within the community of individuals (not states) involved in multilateral negotiations." Darman was Vice-Chairman of the U.S. delegation to the Third Session of the Law of the Sea Conference. He found that:[7]

> It was particularly characteristic of the Law of the Sea Conference community peopled as it is predominantly by internationalist lawyer-codifiers. The internationalist tendency to favor collective over individual actions is combined with the codifier's tendency to see the world in neat, static terms. Above and beyond practical considerations, there is an aesthetic antipathy toward the disorder of non-conformity and a general distrust of the possible benignness of self-regulating, dynamic processes.

This tendency of international bureaucrats has been remarked upon by others, most notably by economist P. T. Bauer who concluded that[8]

> International agencies have consistently favored Third World governments who try to establish state-controlled economies and they have also often supplied to these governments personnel for running state export monopolies, state trading companies and state-run cooperatives. . . . The international organizations also systematically attempt to unite less-developed countries into a bloc in opposition to representatives of the market economy.

The Seabed Authority would be the ultimate expression of this tendency.

Problems of Security

It was intended that the Tenth Session of the Law of the Sea Conference would be able to reach formal agreement on a treaty by the end of 1981. However, the Reagan Administration, led by Secretary of State Alexander Haig on this issue, sent instructions to the U.S. delegation not to allow an agreement to be finalized that year. The rationale for this action was that the incoming Administration needed time to become familiar with the negotiations and to appoint its own team of delegates to the Conference. However, several factors would indicate that more than patronage was at work.

The Republican Platform adopted

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at the 1980 convention stated that "Multilateral negotiations have thus far insufficiently focused attention on the United States' long-term security requirements" and specifically listed the Law of the Sea Conference as one of the problem areas which has "served to inhibit United States exploration of the seabed for its abundant natural resources." Furthermore it is known that Secretary Haig is concerned with the possibility of a future Resource War which would threaten the American economy. Access to new supplies of vital resources is thus an important factor in the Secretary's thinking.

Also the philosophical disposition of President Reagan on issues of international economics is important to note. At the recent Cancún conference, which brought together leaders from both advanced and underdeveloped nations in Mexico, the President made known his preference for private investment and trade and his opposition to any new international bureaucracies being created to regulate economic activity. Certainly something like the Seabed Authority would run counter to President Reagan's announced attitude.

There is a vast potential in the oceans. Attention has focused in the past on the drilling of oil and natural gas on the continental shelf. More recently attention has been drawn to the mining of manganese nodules in the deep seabeds beyond the shelf. It is believed that there may be two million square miles of shelf area where oil and gas might be found. Estimates of 500 billion barrels of oil and 1.5 quadrillion cubic feet of natural gas are not uncommon. Manganese nodules formed from manganese oxide precipitate contain about 30 percent manganese but also nickel (1.4%), copper (1.2%) and cobalt (0.25%). While these percentages may seem small, they become quite significant when the volume of nodules that are believed to exist is taken into account. Estimates run as high as 1,600 billion tons of nodules in the Pacific Ocean. Nodules also are known to exist in the Atlantic and Indian Oceans.[9]

Production Thwarted

The U.S. is dependent on imports for 98% of its manganese, 94% of its cobalt and 73% of its nickel. Manganese is an important industrial metal used in steel making. Manganese alloys are used in aircraft components and the manufacture of mining machinery, railroad track and heavy equipment of all kinds. Presently there is no satisfactory substitute for manganese. Nickel is also an important metal for steel alloys as is cobalt. Cobalt is often used in conjunction with chromium to produce heat-resistant alloys used in jet engines. Presently, Zaire has a near monopoly on the export of co-

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balt. However, Soviet-armed guerrillas have been mounting raids to disrupt Zaire's production.

Even without the problems of the Seabed Authority and the Enterprise, the proposed sea treaty infringes on ocean development. The treaty recognizes a 12-mile limit for territorial waters for all coastal states. This has been considered acceptable to the United States as the best limitation on territorial expansion possible. However, the treaty recognizes an economic zone of 200 miles. In this zone, the coastal state will exercise sovereignty over all resources, living and non-living. Freedom of navigation through this zone is still allowed, but neither fishing nor mining will be allowed without the permission of the coastal state. While this would appear to give the United States many benefits due to its long coastlines, the advanced state of American technology is such that these benefits would be gained just as well under a system of complete ocean freedom. The effect of the treaty is to close off other areas or hold any investments in the continental shelf ransom to the capricious and heavy-handed politics of Third World coastal states.

The fundamental error in the American approach to these negotiations has been the belief that the only alternative to the expansion of territorial claims was the creation of an international claim administered by a supranational body. Yet, these are not really opposite alternatives because both are rooted in the concept that the oceans can be (and/or should be) government controlled.

Limits on Governments

If we return to the original concept of freedom of the sea as expounded by Grotius we can find the source of this problem. According to Grotius, governments could not exercise *dominium* (ownership) over property on land or sea. Governments could exercise *imperium* (sovereignty) over defined parts of the land and over narrow coastal waters. They could not exercise *imperium* over the oceans beyond. What a government cannot do in its own name, it cannot delegate to be done by an international agency. The Sea Conference is nothing more than a meeting of national governments and cannot claim rights collectively greater than they can claim separately. Grotius would no more have recognized the Seabed Authority's claim to regulate the oceans than he would have recognized a claim by Spain or England to do so.

This is the paradox. For the nations of the world to turn over to an international agency control of the oceans, they must first claim that control themselves as individual states. But once having done this, those states best able to make their

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claims effective would have little or no reason to turn them over to the U.N., the Seabed Authority or anyone else. If territorial claims to the oceans are to be avoided, the only logical course is to return to the true meaning of freedom of the seas as understood in international law up to the present day.

Safeguarding Property

It is vital that a sound principle of law be articulated and enforced in regard to the seas. Commerce and fishing have always been important economic activities requiring the safeguarding of property afloat, but mining the material resources of the seabed makes such safeguards even more necessary. The amount of capital that will have to be invested to develop ocean mining sites is of such a magnitude that it is unlikely to attract very many entrepreneurs unless assurances are forthcoming that the mining property worked will be secure.

A maritime code recognized by the international community codifying property rights and giving legal protection to ocean mining companies so that they could proceed with confidence would be highly desirable. Unfortunately, it would be unlikely for such a code to emerge in the current environment. Certainly the proposed Law of the Sea Conference treaty does not fit this description.

Operations through corporations can yield the same effects as territorial claims in regard to the rights of property and law without violating the traditional freedom of the seas ban on the exercise of sovereignty. However, these concepts of private property rights which have a long tradition in Western law are alien in outlook to most Third World and socialist states. There is no prospect that the world community will come together in a philosophical agreement on this matter. That is why the world community is not really a community at all. There is an insufficient body of common beliefs and values to form a true community.

Therefore, if mining operations are to commence in the oceans, those doing the mining will have to be assured of their rights by the United States and other maritime nations. This could either be done on a unilateral basis with each nation providing protection for the operations of its own citizens or by a convention among the maritime states. It is, after all, the Western maritime nations whose citizens will be both the principal producers and consumers of ocean resources. Either alternative would be preferable to the sacrifice of the interests of the Western Industrial nations to a treaty and to a supranational organization dominated by states and values hostile to capitalism.

At various times during the Con-

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ference, American diplomats have made veiled threats to do just this. In 1978, Elliot Richardson told Congress that "Seabed mining can and will go forward with or without a treaty. . . . We have the means at our disposal to protect our ocean interests. . . . And we will protect those interests if a comprehensive treaty eludes us."[10]

As Robert W. Tucker warned in his important book *The Inequality of Nations,* "Either the old order will be reaffirmed by those who for the time continue to hold predominant power or a new order will be established by those seeking to displace the established power holders."[11]

—FOOTNOTES—

[1]Robert Gilpin, "Economic Interdependence and National Security in Historical Perspective," *Economic Issues and National Security,* Klaus Knorr and Frank N. Trager, eds. (Lawrence: Regents Press of Kansas, 1979), p. 25.

[2]Edward Wenk, Jr., *The Politics of the Ocean* (Seattle: Univ. of Washington Press, 1972), p. 259.

[3]*Ibid.*, p. 267.

[4]*Marine Science Affairs* (Wash.: Government Printing Office, 1971), 5th Report, pp. 81–82.

[5]"While serving as a U.S. delegate to the UN (Senator Frank Church) prepared a report for the Senate Foreign Relations Committee, released February 20, 1967, suggesting that the UN be made financially independent through ownership of the ocean's mineral resources." Wenk, *Politics,* p. 259.

[6]Richard A. Frank, "Jumping Ship," *Foreign Policy* (#43, Summer 1981), p. 135.

[7]Richard G. Darman, "Law of the Sea: Rethinking U.S. Interests," *Foreign Affairs* (Jan. 1978), p. 381.

[8]P. T. Bauer, "Hostility to the Market in Less-Developed Countries," *The First World and the Third World,* Karl Brunner, ed. (New York: Univ. of Rochester Policy Center Publications, 1978), p. 177.

[9]George A. Doumani, *Ocean Wealth: Policy and Potential* (Rochelle Park: Hayden Book Co., 1973), Chapter 3.

[10]*Department of State Bulletin* (Wash: Government Printing Office, Feb. 1981), p. 57.

[11]Robert W. Tucker, *The Inequality of Nations* (New York: Basic Books, 1977), p. 96.

Why Not Try Freedom?

IDEAS ON LIBERTY

IN MOST spheres of human action, the state is already firmly established, with its vast array of rules and regulations, layers of bureaucracy, and well-established penalties for transgressors. With the seabed, however, the state is very late in catching on to what technology is making possible. . . .

The statists have had their chance: they have spread their coercive bureaucracies over every square mile of land on earth. The oceans represent man's second chance—perhaps his last—to solve the environmental problems that, unchecked, threaten his extinction. It is time—past time—that men of integrity stood up and said, "Enough!" Laissez-faire: hands off the sea.

ROBERT POOLE, JR., "The Wealth of the Oceans"

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No Way to Run a Railroad

Stephen Salsbury's *No Way to Run a Railroad: The Untold Story of the Penn Central Crisis* (McGraw-Hill Book Company, 1221 Avenue of the Americas, New York, N.Y., 10020, 363 pp., $19.95) is a story within a story. The author defines his fascinating and tortuous book as a business biography of David Bevan, the chief financial officer of the Penn Central Railroad who struggled against a thousand odds to avert America's largest business failure. Most of the time Mr. Salsbury, who once taught at the University of Delaware and now teaches in Australia, manages the perspective of a close-up. You see Mr. Bevan, the common sense protagonist, as a legitimate tragic hero who might have saved the railroad if only he had had more understanding superiors.

The perspective doesn't hold when, at odd moments, Mr. Salsbury looks at the bigger picture. Sensible though he may have been, David Bevan's efforts to stave off the bankruptcy of the Penn Central merger were doomed by a mind-set that took hold in the United States before he was born. Nobody could have saved the Penn Central as long as our Statist philosophy of regulation prevailed. Mr. Salsbury casts the two chief officers of the merged railroads, Stuart Saunders of the Pennsy and Alfred Perlman of the New York Central, as obstructionist villains. But they were not villains, they were merely men who lacked the tools to reverse an historic situation. If they had listened to Bevan they might have failed with at least a show of honor. But they would still have been un-

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able to escape the nemesis of a Washington, D.C., that does not believe in giving enterprisers freedom to compete.

David Bevan came to the Pennsylvania Railroad with a background in finance. He was properly appalled at methods of bookkeeping that did not permit accurate analysis and computerization. Budgets were haphazard affairs, and estimates of cash flow had to be made by guesswork that might be shrewd or might not. The old Pennsy had been run by operators who couldn't go wrong for the simple reason that coal and iron had to be moved by rail in hilly territory if they were to be moved at all. Capital improvements in these circumstances always paid off.

A Declining Business

The great days were coming to an end when Bevan, who worked well with President James Symes, managed to install modern methods of cost accounting and control. With declining business it became important to know where the cash account stood before projecting such things as the rehabilitation of freight cars and the investment in diesels. Bevan had considerable skill in money-raising, but he did not push his wizardry beyond the ability of the railroad to pay its operating expenses.

The trouble, as Mr. Salsbury sees it, is that Symes, and President Stuart Saunders after him, had the fixed idea that the only way to save the Pennsy for profits was to merge it with the New York Central, which served much of the same Middle West market. But there was no proper planning for the merger. The Pennsy had a decentralized system that was held together by Bevan's good methods of accounting, which let Philadelphia headquarters know what was going on in the boondocks. The Central, on the other hand, was a centralized road that somehow got along with ancient Interstate Commerce Commission bookkeeping that made no effort to help budget makers anticipate the future. An added hazard was that Alfred Perlman, who had been brought in from the West by Robert Young to manage the Central, didn't want the merger anyway.

What happened when the two roads were put together was utter chaos. Cars were lost, and customers vanished. Up to the time of the merger the Pennsy was able to pay its bills out of the investment income earned by its wholly-owned subsidiary, the Pennsylvania Company. David Bevan had followed a diversification program that was generally successful. And both the Pennsy and the Central had profitable real estate in New York City, where "air rights" over trackage could be turned to good account. But the blunders in operation, magnified

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by employees who simply did not like to work together as a team, could not be compensated for by outside investments.

Personal Clashes

Part of the time David Bevan functioned as a Cassandra. As Professor Thomas Cochran notes in his foreword to the book, Cassandras are never believed. But, unlike the original Cassandra, Bevan had a free will streak. At one point he had arranged to take early retirement, but he allowed himself to be persuaded that he might help avert doom by hanging on. He felt a loyalty to his benefactor, Richard Mellon, a Pennsy board member who asked him not to resign.

Mr. Salsbury makes it high personal drama, with the good guy (Bevan) standing off the bad guys (Saunders and Perlman). But the personal drama collapses when the author, in a mournful commentary, remarks that "what no one knew in 1969 and early 1970 was the long term and severe nature of the collapse of the northeastern railroads. . . . It was evident that the Pennsylvania and the New York Central had long been marginal enterprises. It was also clear these railroads suffered from the general decline of the Northeast and were further damaged by Eisenhower's massive highway program, which diverted much of the high-value traffic still remaining in the region. Hindsight tells us that the operating failure created large operating losses . . ."

The difficulties went far deeper than anything connected with cost accountancy or cash flow projections. At one point the Pennsy, following Bevan's diversification ideas, invested in something called Executive Jet, a company that provided jet transport for corporations which lacked the resources to own jets of their own. Saunders, no villain at this point, caught a vision of a future given over to well-rounded transportation enterprises. Says Mr. Salsbury, "he felt that it was only a matter of time before railroads would be allowed to control a thoroughly integrated transportation system that would mix trucks, pipelines, ships, inland barges and trains. To the north in Canada, the Canadian Pacific Railroad already did exactly that. In the West, Southern Pacific was coordinating trucks and pipelines with its rail operations."

So, on Mr. Salsbury's own showing, Stuart Saunders wasn't quite a dummy. The big villain of the piece turns out to be government. If our regulators and antitrust zealots had only allowed transportation companies to expand into trucks, airplanes, barges and pipelines at their own sweet will, we might have averted such bankruptcies as that of the Penn Central.

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WHEN WE ARE FREE

Edited by Lawrence W. Reed and Dale M. Haywood (Northwood Institute Press, Midland, Michigan 48640), 1981
403 pages ■ $15.50 paperback

Reviewed by Brian Summers

TEXTBOOKS supporting the freedom philosophy are few and far between. Thus this book of readings, edited by two economics professors at the Northwood Institute, is a welcome addition to the literature of freedom.

The readings consist of sixty essays, many of which first appeared in *The Freeman*. Leading off are several articles on property and the nature of man. Frank Chodorov examines the source of rights. Paul Poirot establishes the connection between property rights and human rights. And Roger Williams makes the case for treating all people as unique individuals.

On this individualistic basis the role of government is examined, and different systems of economic organization are compared. Turning to history, Professor Reed describes the fall of Rome and draws some worrisome modern parallels. Bettina Greaves shows how capitalism liberated women, while Eric Brodin tells why he liberated himself from socialist Sweden.

Ben Rogge, Hans Sennholz, and Ludwig von Mises describe the moral underpinnings of the free economy. Several authors dispel myths of capitalism and examine contemporary issues: immigration, energy, medical care, and foreign policy. Finally, the essays conclude with Leonard Read's wise counsel on the methods for promoting liberty.

This review can only hint at the range of topics covered. Such a wide selection, and careful organization, makes this an excellent choice as a primary text or for supplemental reading. We hope this book will see wide use in our nation's high schools and colleges.

HOW DO WE KNOW?

by Leonard E. Read
(The Foundation for Economic Education, Inc., Irvington-on-Hudson, N.Y. 10533), 1981
117 pages ■ $6.00

Reviewed by Perry E. Gresham

How Do We Know? is the catchy title for the latest book from the prolific pen of Leonard E. Read. The book is a warm and gentle invitation to readers who wish to learn more about liberty. The title might suggest a brief essay on epistemology, but this is far from the case. It is rather more

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of a modest testimony from a great man who has given his life to the pursuit of knowledge and understanding concerning individual freedom.

The cover of this striking little volume shows the face of an inquiring person looking through the circular portion of a question mark. Many questions leap to the mind of a reader, the first being "Who is this Leonard Read?" The current volume of *Who's Who in America* shows him to have been born in Hubbardston, Michigan, September 26, 1898. Here were his school days and his first efforts at business. After a short while as president of the Ann Arbor Produce Company, he became an organization executive for the U.S. Chamber of Commerce. His rare ability to work with people, his creative imagination, his tireless diligence and his sterling integrity brought him to first place among his peers with the Chamber of Commerce and with other associations such as the Western Conference for Commercial and Trade Executives. Read is an inspiring leader who brings out the best in his associates.

Read was almost fifty when he decided to give his life to the study of liberty. In 1946 he organized the Foundation for Economic Education. This foundation is the lengthened shadow of a man who exemplifies everything he writes concerning the study of human freedom as it applies to the field of political economy. To this concern he has invested his thought, his time and his genius.

There is absolutely no arrogance in Leonard Read. This is his twenty-eighth book on the practice of liberty and yet he professes to know nothing. He is like Socrates who does not claim to be wise but loves wisdom with his total being. Those of us who have known him through these rolling years give testimony to the fact that his personality, his speaking and writing start a contagious love of liberty.

After fifty years in academics, my favorite quotation for high ceremonies such as graduation and honors day comes from a student who said of his new degree awarded summa cum laude, "Nothing wilts as quickly as laurels that have been rested upon!" Read is pushing his middle eighties but he is not about to sit in the sun and disintegrate. He is like the Venerable Bede who, writing in his cold cell, answered the question, "Why do you write in these advanced years?" — and the brave old monk answered, "I do not want my students to believe a lie."

Every morning Read is at his typewriter whacking away, writing for the multitudes that look to him for the inspiration, knowledge and literature of liberty. His ideas are so cherished that his friends have said, "Why do you quote so many sources in your book?" (There are many quo-

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tations and 140 names.) On page three of *How Do We Know?*, Read answers the query, "I am often criticized — in a friendly way — for so copiously quoting those whose wisdom is far superior to mine, Edmund Burke, for instance. 'Why don't you confine yourself to your own thinking?' My reason? Most individuals do not have available to them such resources as are available to us at FEE. So why not share the wisdom of seers — those who have seen what most of us have not — with freedom aspirants!"

This wide-ranging little book deals with the pilgrimage toward a free political economy. The logic of the contents is a pleasant journey for the mind. It begins by urging us to read the great books; it warns against the corruptive influence of coercive power; it moves through the fields of happiness when one finds truth. He then sees America as an experiment in freedom based on morality, as the market works and the ideas possess the people.

He calls us to respond to our visions of greatness held before us by the prophets and seers. He argues for self-realization and stresses the importance of all-out dedication. He takes interest in education, peers into the future and, in the culminating chapter, "Strive To Be A Nobleman," he challenges us to become honorable before God and humanity.

Read is not content to argue for integrity. He lives it. This is succeeded by charity, intelligence, justice, love and humility, which he mentions on page fifty-eight. He is a man of single mind and calls other people to single-minded pursuit of truth and freedom.

He has little regard for the pretentious. His lovely aphorism is "The know-it-all is a know-nothing." He is poignantly aware of his own limitation. On page ninety-three he says, "Who am I? Here's one part of the answer: I am one octillion atoms — 1 followed by twenty-seven zeros — a number difficult to grasp unless we use our imagination. Cover the surface of this earth — land and sea — with dried peas to a depth of four feet and their number would fall far, far short of an octillion. Go out into the universe and cover 250,000 other earth-sized planets with four feet of peas and that would be the number of atoms in my make-up. Mystery? The atom? It is so small that thirty trillion atoms could be placed on the period at the end of this sentence without overlapping. Blow an atom up to one hundred yards in diameter and what do you behold? Radiant energy in the form of electrons, neutrons and the like, in wave sequences flying about at the speed of light. In the center is the atomic nucleus which, after being thus expanded, is the size of a pinhead. This and this alone is 'stuff' and no one

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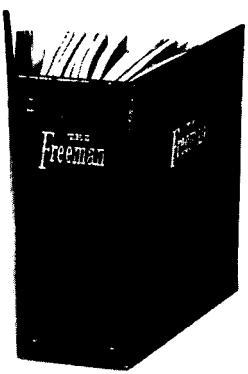
knows what it is, except that it appears 'solid.' All else is empty space. Mystery?"

Out of this sense of mystery, however, come his sensible and practical doctrines in the field of political economy. He argues for sound money, limited government, individual freedom, reliance on the market, the importance of thrift, and the virtues of self-reliance.

The person who takes an evening to read this book is not only in the presence of Leonard Read, but in the presence of the world's greatest people in time and space, who offer their ideas on how to improve the quality of life in this fair land. There is a suggestion here that America can continue to be an exemplar of liberty for the rest of the world.

The abiding influence of Leonard Read could make this new American Dream come true!



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